

# WRITE US IN

Laurence Kotlikoff for President

Edward Leamer for Vice President

[www.kotlikoff2016.com](http://www.kotlikoff2016.com)

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# 1. Preface – You Have a Choice

The parties have served up these two choices for President:

1. A narcissistic, racist, sexist, spoiled, intemperate, uninformed demagogue who most experts view as a major national security risk and who over half the country views unfavorably
2. Someone who treats protecting national security as optional, lies under oath, substitutes sound bites for substance, is mistrusted by millions and who over half the country views unfavorably

There is another choice.

With these nine words you can elect people who will put your children and their future first.

*Laurence Kotlikoff for President*

*Edward Leamer for Vice President*

Ed Leamer, one of our country's premier economists, and I are nationally registered write-in candidates whose names you can simply write in the space provided on your ballot on November 8<sup>th</sup>. We're we to win across the country, we'd pick up 90 percent of the electoral votes.

Write-ins have historically been a joke. This is no joke. No economist has ever run for President. And no presidential write-in candidate has ever received so much media attention.

Our campaign has been covered in The Wall Street Journal, The Boston Globe, The Dallas Morning News, Money, Forbes, PBS, NPR, CNBC, Politico, Ozy, Newsmax, Investment News, CBS, The Detroit Free Press, FiveThirtyEight, and other leading national and international media outlets.

My package of economic policies represents nothing short of a new New Deal. These plans were carefully crafted to strongly appeal to both Republicans and Democrats. They combine good economics and common sense and would let government do its proper job and then get out of the way.

Republicans, who are fleeing Trump in droves, should make us their Republican candidates. Democrats who can't stomach Clinton should make us their Democratic candidates. Independents, well, we're all yours.

As college professors we're used to assigning homework. Here's your homework – *Read this book, Forward this book, and Write Us In.*

Please read this book, please forward the book and this url, [www.kotlikoff2016.com](http://www.kotlikoff2016.com), to everyone you know, and please write us in.

We promise you. A vote for us is a vote for your children.

# 1. Write Us In

I wrote this book to give you and other voters a serious alternative on Election Day. I wrote this book to become the next President of the United States. I'm running for the presidency, with my running mate, UCLA economist, Edward Leamer, not out of pride or for personal advantage. I'm running to prevent our country from becoming mired, yet again, in political gridlock. I'm running to make fundamental and essential reforms to domestic policy and provide tougher and smarter leadership in foreign policy.

The facts speak for themselves. America has lost its way at home and abroad. On the domestic front, our economy is floundering and has been so for years. Real-wage growth stopped back in the mid-sixties. Foreign competition, outsourcing, immigration, automation, second-rate education and a dearth of job-specific training share the blame. So does our terribly low rate of investment.

Countries that don't save don't invest. And we don't save. This is largely thanks to our politicians who spent the postwar years buying our votes with lower taxes and higher benefits. The result? We individually spent more and collectively saved and invested less. The politicians financed our spending spree with massive borrowing. But they shrewdly kept most of it off the books. Hence, official debt doesn't begin to capture our government's long-term insolvency.

Wherever one looks, politicians have placed self-interest before national interest. Banking is the latest, sorry example. The banks pay the politicians to let them gamble. The banks gamble. The banks fail at colossal cost. The politicians use our taxes to bail them out. And then they let the banks gamble once again.

The depressing list of major domestic problems also includes rising inequality, the disappearance of the middle class and

crumbling infrastructure. But our foreign challenges are far greater and more urgent.

North Korea has spent decades developing the means to destroy our country – something it threatens on a daily basis. Iran is also sworn to our demise. Both enemies are actively developing long-range missiles that can deliver nuclear weapons, whether homemade or store-bought, directly to our doorsteps. Our supposed friends, Russia and China, are doing little to contain these countries. Instead they are probing our resolve in the Ukraine, the Middle East and the South China Sea. Our European allies, once steadfast and united, are bickering and unable to steady their shaky economic union. Meanwhile, ISIS, the latest and most dangerous postwar terrorist organization, menaces every civilized nation. Yet our greatest external threat is largely of our own making. It's global climate change, to which the United States has historically been the major contributor. Climate change threatens a range of plagues of near-biblical proportion, including submerging most of the world's great population centers – all within our children's lifetimes.

These issues are too serious for politics as usual. But that's what the two parties are offering. Their candidates, Secretary Hillary Clinton and Mr. Donald Trump, come with massive baggage, supersized egos and visceral contempt for opposing views. That would matter little if they understood our problems and how to fix them. They don't. They spent the primary season mouthing sounds bites, not hard truths or real answers. This helps explain why both candidates are exceptionally unpopular.

Neither has earned the respect, let alone the strong support, of a majority of the country.<sup>1</sup> Indeed, as I write, the shares of

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<sup>1</sup> <http://www.quinnipiac.edu/news-and-events/quinnipiac-university-poll/national/release->

voters who rate both candidates as strongly unfavorable are off the charts and growing.<sup>2</sup> In Mr. Trump's case, a host of prominent Republicans, including former presidents, governors, senators and representatives, are publicly refusing to endorse his candidacy.<sup>3</sup>

There are many people in America who are far more qualified than Secretary Clinton or Mr. Trump to serve as President. Based on my professional training, policy expertise, political independence, penchant for the truth and sober judgment, I consider myself one of them. Had other qualified men or women stepped forward, I would have gladly stepped back and supported them. They have not. Consequently, I'm volunteering for duty. My ardent goal is to become President, fix our problems, secure our nation's future and return to my day jobs as an economics professor and the president of a small software company.

My objective is certainly not to start a third party. Our two parties are bad enough. They are dominated by ideologues convinced theirs is the only truth. They make toppling their political opponents their life's work. Unfortunately, we moderates don't live and breathe politics. Yes, we are deeply concerned about our country. But we have our jobs to do, our children to rear and our lives to lead. And when it comes to voting in primaries, we say, "No thanks. Other moderates aren't voting. Our votes won't matter." Sadly, we're right.

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detail?ReleaseID=2311

<sup>2</sup> [http://fivethirtyeight.com/features/americans-distaste-for-both-trump-and-clinton-is-record-breaking/?ex\\_cid=538twitter](http://fivethirtyeight.com/features/americans-distaste-for-both-trump-and-clinton-is-record-breaking/?ex_cid=538twitter)

<sup>3</sup> <http://www.nytimes.com/2016/05/07/us/politics/donald-trump-seeks-republican-unity-but-finds-rejection.html?hp&action=click&pgtype=Homepage&clickSource=story-heading&module=first-column-region&region=top-news&WT.nav=top-news>

Participation in primaries runs below 20 percent.

The result? Too few moderates compete, too many zealots get elected, Congress remains deadlocked and our presidents become beholden to extremists. Consequently, nothing ever gets fixed.

How can we escape this trap?

There's just one way: we need to elect someone connected to neither party nor beholden to any interest group, someone who can talk to both sides and unite our country, someone who truly understands our problems, someone who has real solutions, and someone tough enough to handle our enemies.

To repeat, I'm not the only such person for this job. Nor am I the best such person. But I can do this job and do it well. So if, like me, you are deeply concerned about our country's direction and our presidential choices, please do these four simple things.

First, read and then forward this free book to everyone you know. Or print it out and distribute it. Second, form a voting block of 10 friends, relatives, or colleagues to join you in writing me in. Third, write *Laurence Kotlikoff for President* and *Edward Leamer for Vice President* directly on your ballot on November 8<sup>th</sup>. Fourth, donate on our site what you can comfortably afford and volunteer to assist our campaign.

I'll discuss Ed Leamer, my choice for Vice President, later in the book. But let me say a couple things here about why I picked a VP so quickly and why I picked Ed. It turns out that many states have early deadlines to register to be a write-in candidate and their registration processes require specifying the candidates for Vice President and as well as President. As for why I chose Ed, who is a professor of economics at UCLA.

The answer is simple. Ed's one of the world's premier economists. Like me he's apolitical and belongs to neither party. And like me, Ed's been appalled at the course of economic and foreign policy over the last three decades. Ed and I are very close and old friends and strongly agree on the ways we must fix our economy and protect our country from foreign threats.

## **Adopting Bernie's Approach to Contributions**

Money has demeaned our political process and corrupted our politicians for far too long. Candidates for President, along with their Super PACs, are now spending enormous sums – not to explain our problems and how to fix them, but to denigrate their opponents and glorify themselves.

Fortunately, money doesn't always talk.<sup>4</sup> Ask Governor Jeb Bush, who spent \$150 million losing the Republican primaries.<sup>5</sup> Ask Governor Mitt Romney, who spent over \$1 billion losing his bid for the presidency.<sup>6</sup> Or ask President Obama. He out-spent Governor Romney yet couldn't recapture the House on his coattails.

What money does buy is access to politicians and their legislative favors. It's easy to check online the different Congressional committees regulating different sectors of our

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<sup>4</sup> But it can buy legislation. For example, the biggest donors to the Congressional committees that oversee Wall Street are, you got it, the big banks. This will stop instantly under my banking reform.

<sup>5</sup> <http://www.nytimes.com/roomfordebate/2016/02/25/does-money-really-matter-in-politics?action=click&pgtype=Homepage&clickSource=story-heading&module=opinion-c-col-right-region&region=opinion-c-col-right-region&WT.nav=opinion-c-col-right-region>

<sup>6</sup> <http://www.politico.com/story/2012/12/barack-obama-mitt-romney-both-topped-1-billion-in-2012-084737>

economy and also who are the main contributors to the members of those committees. The picture that emerges is absolutely disgraceful. Political and public interest could not be more opposed in this practice, which I will relentlessly expose and end as President.

It's beyond time to get big money out of politics. Senator Bernie Sanders has made an enormous step forward in this regard by refusing Super PAC money and requesting small donations. My first instinct (in the first release and title of this book) was to go Bernie a step further and ask for no money whatsoever – not a penny. But as campaign expenses have mounted, I've decided to follow Bernie's lead and ask supporters to donate on our website ([www.kotlikoff2016.com](http://www.kotlikoff2016.com)), but only what they can afford. Moreover, we're certainly not taking, directly or indirectly, any Super PAC money.

Beyond affordable donations, Ed and I are asking for people to read this short book and forward it to others and spread this link – [www.kotlikoff2016.com](http://www.kotlikoff2016.com) – via email, Facebook, Twitter, YouTube, Instagram, and all other social media, include the earliest type invented, namely word of mouth.

What donations we receive will be used primarily to hire PR firms to book media interviews. We won't waste a penny on expensive TV ads with self-aggrandizing sound bites. Nor will we waste money organizing pep rallies. Ours is a campaign of hard truths and smart ideas, not one of sound bites delivered at exorbitant cost. In short, we are asking you and everyone else to do their homework, to read this book, to think deeply about what we are saying, to compare our policies with those of Secretary Clinton and Mr. Trump, and to do so on behalf of yourselves and your children.

So, to repeat, please forward this book, form a 10-person voting block, write us in on November 8<sup>th</sup>, and donate what you can. Also, please volunteer at [www.kotlikoff2016.com](http://www.kotlikoff2016.com) to work with our campaign.

## **Are Write-In Candidates Permitted?**

Federal statute requires each jurisdiction to tally the votes received for each candidate for presidential election. Consequently, a write-in candidate, especially one with majority support in a given state, would have a strong political as well as legal basis to request all 50 states accommodate presidential write-in voting.

At the moment, 41 of the 50 states, representing 91 percent of the electors in the Electoral College, explicitly permit write-in presidential candidates. What about the other nine states? One state, South Carolina, has a state law prohibiting write-ins for the presidency. Nevada, Hawaii, South Dakota, Oklahoma, Louisiana, New Mexico and Arkansas operationally block write-in candidates. Mississippi permits write-in candidates but sets a particularly strange but truly high bar. It counts a write-in candidate's votes, but only if the candidate dies prior to the election.

I'm confident that these nine states, which, again, represent only 48 out of the 538 members of the Electoral College, would change their stance in advance of the election were we to see what I expect to see – a large groundswell of support for my candidacy.

## **Please Volunteer to Work for My Campaign**

We welcome volunteers to help our campaign fulfill the relatively minor requirements set in each of the 41 states for being a write-in candidate. If you have the time to help, please register as a volunteer at [www.kotlikoff2016.com](http://www.kotlikoff2016.com), and we'll be in touch.

## 2. My Background

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I'm a professor of economics at Boston University. I received my BA in economics from the University of Pennsylvania and my PhD in economics from Harvard University. I'm a fellow of the American Academy of Arts and Sciences and a fellow of the Econometric Society (an honorific society in economics). I've authored or co-authored 18 books, hundreds of professional articles and over a thousand columns. In 2014, The Economist magazine ranked me among the 25 most-influential economists in the world. In 2015, I became a #1 NY Times best selling author for my co-authored book about Social Security.<sup>7</sup>

More broadly, I'm a teacher, researcher and consultant for companies, governments, international agencies and world leaders. I've worked on virtually every major policy issue we face, including economic growth, tax reform, healthcare reform, Social Security reform, climate change and banking reform.

I've spent short stints working at the Federal Reserve, serving as a senior economist with the President's Council of Economic Advisers and consulting with the Office of Management and Budget. Over the years, I've also discussed policy on an informal basis with top-ranking members of

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<sup>7</sup> We just revised the book in light of new changes to Social Security rules enacted last November. The new edition is called Get What's Yours – the Revised Secrets to Maxing Out Your Social Security.

Congress, senior members of the executive branch and chairs of the Federal Reserve. I've testified before Congress, sometimes at the request of Democrats and sometimes Republicans. And I've advised, worked with or discussed domestic and foreign policy with companies, governments, international agencies, think tanks and economists from across the globe.

I also founded and run a small company called Economic Security Planning Inc. We make personal financial planning tools for households and financial planners.<sup>8</sup> Consequently, I know firsthand the problems facing small U.S. businesses, particularly the unbelievable government red tape that keeps small companies from expanding and hiring more workers.

The above tells you many things. But it doesn't tell you I'm qualified to be President.

Character, judgment, conviction, knowledge, direction, common sense and strength of purpose are far more important than degrees, awards, resumes, contacts, media appearances or time on any job. What my bio does tell you is that I have enough experience to understand the requirements of leading small and large countries, including our own. The rest of this short book will help you decide if I have the right stuff, as opposed to the right résumé, to merit your vote.

First, let me give you a little more background on who I am and where I came from.

## Biographical Sketch

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<sup>8</sup> My company's main websites are [www.maximizemysocialsecurity.com](http://www.maximizemysocialsecurity.com) and [www.economicsecurityplanning.com](http://www.economicsecurityplanning.com).

I'm 65 and in good health. I live in Boston with my marvelous wife, Bridget. I have two terrific sons, an equally terrific step-daughter and a handsome cat named Riley. I grew up in Pennsauken, New Jersey. My father and his brothers owned the first and last department store in Camden, named *Kotlikoff's*. I've seen firsthand the problems of our inner cities, which have been ravaged by outsourcing, white flight, crime, corruption and third-rate education.

I was just a kid during the Civil Rights Movement, but I watched it all on TV – the lynchings, the church bombings, the sit-ins, the marches, the dogs, the water cannons, George Wallace, Bull Connor, President Kennedy's civil rights address from the oval office, the March on Washington and Reverend Martin Luther King's "I Have A Dream" speech. I also witnessed, in black and white and later in living color, the building of the Berlin Wall, the Cuban Missile Crisis, JFK's assassination, Martin Luther King's assassination, Robert Kennedy's assassination, the riots, the bloody scenes from Vietnam...

I remember a family trip to Washington when I was about eight at the end of the '50s. We stopped at a rest stop on the turnpike and started walking to the restaurant when we saw a sign: "No Niggers, No Dogs." We turned around. That's when my mom (now 96, but still running on all cylinders) told us how she was refused entrance into a hotel a few years earlier because she was Jewish. In the background to all this hate was, of course, the unspeakable Holocaust, which led to the deaths of millions of Jews and other minorities only 15 years earlier.

Today, when I see African Americans and whites socializing together, a shiver runs down my spine, and I breath "Amen." Yes racism, subtle and explicit, is alive and well in our country.

But times are, on balance, far better than when I was a kid, and the idea of an African American President was beyond belief.

The same shiver runs down my spine when I visit countries like Israel, Germany, the Czech Republic, Russia, China, Japan, Chile, Korea, Singapore and Malaysia and realize that enormous, if imperfect, miracles do happen to peoples and countries. Those same miracles can happen for today's war-torn or impoverished countries if their citizens are willing to do the hard and often dangerous work to change their collective destinies.

I went to public school through the seventh grade and then attended a Quaker high school in Morristown, NJ. I was asked to spend my junior year as the school's exchange student to Nuremberg, Germany. I was 15 at the time, and, when the plane lifted off on August 8, 1967, from Philadelphia to Frankfurt, I was already homesick and plenty scared. Exactly one year later, I returned to the U.S. having seen much of Germany, including East Berlin, lived in France for a month (thanks to my German school's own exchange program) and visited Austria and Holland. It was an amazing experience. When I left Philadelphia, I could hardly speak a word of German. When I came back, my German was pretty good and my French was decent.

My German "parents" were marvelous and treated me just like their sons. But World War II still hung heavily in the air, and they shared an underlying sadness suggesting the very tough times they had experienced. They told me a lot about the Nazis and the terror they had imposed on decent Germans. One of the most chilling things my German father told me was that parents lived in fear of speaking openly about the Nazis to their children. If their children said something in school, they might

be arrested and sent away, most likely for good. I also encountered some anti-Semitism, although most people were extremely warm to the first Jew they had ever met or seen in years.

At about the time I graduated from high school, the Vietnam War was raging in full force. I would have been immediately drafted but received a deferment for attending college. By the time I graduated, the draft had ended, 50,209 members of my generation were dead and 153,303 were wounded, many permanently.

I spent my time at Penn in equal parts studying and working, to pay for room and board. Like so many in my generation, I actively protested the war. Vietnam, like the wars in Iraq and Afghanistan, was a terrible mistake, not just strategically but morally. We shouldn't fight wars or continue wars that aren't vital to our national security, that take our soldiers' lives for granted, that clearly can't be won and that dismiss civilian deaths and injuries as collateral damage. Nor can we fight other people's wars for them. Yes, we are strong and powerful. But we won't stay that way unless we pick our fights very carefully.

In college, I became fascinated with economics and its ability to guide public solutions. When I was accepted into Harvard's economics PhD program (one of 15 to which I applied), I was sure it was a clerical mistake. Only geniuses got in, and I was no genius. But over time, I realized there are no geniuses – just people who work very hard and whose brains are wired to do a few, highly specialized things well. A lot of “geniuses” I met at Harvard flunked out because they were too smart to study.

My dissertation was focused on the economics of saving and the impact of Social Security and other policies on that important behavior. Computers were in their early days, and I made full use of the gigantic Harvard mainframe to run large-scale simulations. It was an intellectually fascinating time. But the best part of Harvard was the fellow students who came from every corner of the world. Many are lifetime friends. One, Sebastian Pinera, was my first co-author and became president of Chile in 2010. He's afforded me the opportunity to spend time in Chile and discuss its economic policy – past, present and future.

## **My Career Has Focused on Policy Reform**

Graduate school was 43 years ago. What have I done since?

I've spent the years since carefully studying the major policy problems our politicians have created or failed to address. This research, which I've conducted with many other economists, means I know where the bodies are buried.

What problems exactly? Here are four quick examples.

Number 1: Our country is dead broke. Our true indebtedness is miles higher than the \$18 trillion in official debt. As discussed in chapter 5, leaving this bill to our children will destroy their economic lives.

Number 2: Our Balkanized system of healthcare is delivering subpar outcomes at a terribly high and unsustainable cost. Medicare, Medicaid, employer-based healthcare and Obamacare aren't working individually let alone collectively. Obamacare, while extremely well intended, is leaving millions uninsured, significantly taxing the poor if they earn more (by

cutting their subsidies and raising their premiums) and letting uninsured healthy Americans opt out at a low penalty. This exit option is making Obamacare exchanges unprofitable for health insurers. Many never signed on and others are no longer insuring Obamacare participants.<sup>9</sup> None of this should or need continue. Chapter 8 explains the simple way to do universal healthcare right.

Number 3: Social Security is in horrendous financial shape – far worse than Detroit’s pensions when the city declared bankruptcy. According to its actuaries, Social Security has \$26 trillion in red ink and is 31 percent underfinanced.<sup>10</sup> The system is also a user’s nightmare with 2,728 rules and hundreds of thousands of rules about those rules. As a result, we have a basic retirement saving system that no one remotely understands. I’ve been helping people with the system for years via a weekly column on PBS NewsHour’s website.<sup>11</sup> Consequently, I know just how badly Social Security needs to be fixed. Chapter 9 provides a very simple way to do that.

Number 4: Wall Street is, if anything, more dangerous now than in 2008. The Dodd-Frank Act was a full-employment bill for government bureaucrats and a huge gift to our largest and most dangerous banks. They are the only ones who can afford to comply with the new regulations. This explains why the industry is becoming ever more concentrated. But the real concern with Dodd-Frank is that it does essentially nothing to deal with the risk of another banking collapse. The reason is simple: Dodd-Frank doesn’t address the banking system’s core

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<sup>9</sup> <http://www.wsj.com/articles/unitedhealth-tops-expectations-raises-guidance-1461062440>

<sup>10</sup> [https://www.ssa.gov/oact/tr/2015/VI\\_F\\_infinite.html#1000194](https://www.ssa.gov/oact/tr/2015/VI_F_infinite.html#1000194)

<sup>11</sup> <http://maximizemysocialsecurity.com/press-articles?tid=29>

problems – leverage and opacity. Read Chapter 11 to see how easily we can fix Wall Street for good.

A number of the books I've authored or co-authored focus on these and other issues. *Generational Accounting*, *The Coming Generational Storm* and *The Clash of Generations* all discuss our nation's urgent fiscal dilemma. *The Healthcare Fix* is, of course, about fixing healthcare. And *Jimmy Stewart Is Dead* explains how to ensure Wall Street never again brings our economy to its knees and then blackmails the public to restart its lending.

My most recent co-authored book is *Get What's Yours – the Revised Secrets to Maxing Out Your Social Security Benefits*. It helps people get the benefits they are owed by our Social Security system, which can be incredibly difficult. The first edition of this book became a #1 best seller. (My co-authors and I just released the revised edition because Congress changed Social Security law dramatically in November.) It's great to have people read your work. But it's a disgrace that our basic system of saving is so complicated that one needs an entire detailed book to understand it. Social Security doesn't need to be a bureaucrat's paradise and a user's nightmare. I'm not advocating moving to New Zealand's social security system. But it has one rule. You reach age 65 and start collecting a monthly check. It's the same check for everyone.

After graduate school, I taught first at the University of California at Los Angeles, then at Yale University, and finally joined Boston University (BU) in 1984. I spent the fall of 1981 and the spring of 1982 working on the President's Council of Economic Advisers. This was under President Reagan, but that fact didn't and doesn't make me a Republican. I have never affiliated with either party. I thought then and think now that

economists can't provide independent policy advice if they are connected to one of the parties. The conflict of interest is just too strong. When I worked at the Council of Economic Advisers I was almost fired four times for insisting on doing something that wasn't part of my job description – telling the truth.

In 1985, I became the chair of the BU economics department. At the time the department was ranked 86<sup>th</sup>. Within a decade, we were ranked seventh. Creating a world-class economics department was my goal when I became chair. Everyone thought it impossible. No other economics department had ever moved from the bottom 80s to the top 10, let alone done so in the space of a few years. But I'm a persistent SOB and, together with my colleagues, we made it happen.

In 1993, I founded my software company with Stanford economist Doug Bernheim. Doug and I realized that the software code we were writing to study saving and insurance adequacy could be used to provide people financial advice. Doug became a passive investor early on, but I steered the company through thick and thin (mostly thin), designed our core software (for which we received a patent) and can proudly say that we have the best lifetime financial planning and Social Security benefit-maximization tools on the market.

Unlike most business execs, I don't take a salary from my company. Boston University pays me well, and I prefer to keep my company's software prices as low as possible to help as many people as possible sort out their finances. My company has 10 employees (including two of my relatives) and clears over \$1 million per year in revenue. That's very small potatoes to Mr. Trump, but I take great pride in employing my

colleagues and helping the public.

I frankly don't comprehend how top CEOs can sleep at night when they shovel massive amounts of money in their pockets while tossing workers on the street – simply to raise their bottom lines. My bottom line as President would be to call out such CEOs for such behavior. I'd also make clear that when they automate, outsource, downsize and otherwise economize on labor, they are firing each other's customers. Employers need to realize that if they don't collectively train and hire as many people as possible and pay them as much as possible, our country will never progress.

The advent of smart machines is particularly troubling in this regard. Today smart machines can bomb our enemies, answer our phones, check us out at the store, steer our planes, field our calls, rub our backs, vacuum our floors and beat us at Jeopardy. Soon they will replace humans in every part of the transportation industry, which now accounts for 7 percent of total U.S. employment. Anyone running for President should be keenly aware of the economic danger robots pose for humans. This danger is clarified in work I've done with Columbia University economist Jeffrey Sachs and two graduate students.<sup>12</sup> We've shown that under the right conditions, robots can put so many people out of work or good work that the public can no longer afford to buy much of what the robots sell. The long-run result can be a permanently reduced national living standard.

## **International Experience**

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<sup>12</sup> In 1985, I became the chair of the BU economics department, transforming it into one of the top economics departments in the world.

I routinely give talks about economic issues both at home and abroad. In addition, I formally or informally advise developed and developing countries either at the request of their governments or via missions organized by international organizations, like the World Bank or the International Monetary Fund.

Examples of these international experiences include working at the Bank of England and Her Majesty's Treasury on the UK fiscal gap, assisting Bolivian President Sanchez de Lozada with his privatization initiative, consulting with the Chinese and Russian governments on their pension reforms, discussing healthcare policy with the prime minister of Kazakhstan, discussing banking reform with the president of the Irish Central Bank and briefing the former president of Chile on the global economy.

As the above indicates, I've had plenty of experience talking to top officials around the world. As a result, I'm not fazed by anyone's title and view a discussion with, say, the German chancellor (whom I haven't met) as little different from a discussion with the chair of the Federal Reserve (who is a close friend) or, for that matter, a discussion with Tony, my neighborhood drycleaner.

Everyone, at the end of the day, is just another human being with a finite lifespan. What matters to our country is not someone's title but how his or her decisions affect the health, safety and prosperity of our citizens as well as the welfare of people around the world. I'm personally too old to be impressed by anyone's crown.

All told, I've visited some 50 countries on six continents (Antarctica is on the wish list) for short or extended stays. This

travel has been a rare privilege and a marvelous learning experience. It's provided excellent practical training in international economics and foreign affairs.<sup>13</sup>

## My Decision to Run

This isn't the first time I've run for President. In 2012, I was – as I am now – deeply concerned that the election would produce political gridlock and that nothing would get properly fixed. (That's exactly what happened.) So when some well-heeled folks set up an online, third-party platform called Americans Elect and encouraged me and others to run, I registered with the Federal Election Commission, established a website, posted a platform and became a candidate for President. My relatives shook their heads. But I was strongly encouraged by fellow economists around the country.

Their support was personally gratifying but also reflected a deep frustration in my profession that policymaking in Washington is almost solely influenced by party politics, not good economics. In any case, economists liked my proposed reforms. That was no surprise because I formulated each plan after extensive consultations with economists who specialize in the particular issue involved. Indeed, "my" platform is what I believe economists, as a group, think is needed.

Unfortunately, after five months, the backers of Americans Elect ran short of money and shut down their site. But my short-lived 2012 candidacy prompted many to ask me to run again this year. George Shultz, one of our country's senior

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<sup>13</sup> I've also been to all but five of the 50 states. Like visiting a foreign country, seeing what's happening in our different states helps clarify what will and won't work when it comes to addressing national challenges.

statesmen – who held four cabinet positions (secretary of state, secretary of the Treasury, secretary of labor, and director of the Office of Management and Budget) – is one of those people. At 93, Secretary Shultz is still actively helping the country formulate domestic and foreign policy. In 2010, Secretary Shultz invited me to Stanford to present my plan to fix the banks to the policy seminar he runs. Since then, we've met several times to discuss policy, domestic and foreign.

Secretary Shultz doesn't mince words, and he doesn't take matters lightly. When he talks, he sounds like a Marine – for good reason. He was and is a Marine, one of our few surviving WWII vets. When I told the secretary last fall that I was considering running for President as a write-in candidate, he shot out two words: "Do it."

Secretary Shultz's encouragement and that of many others strongly reinforced my decision to run. So did the primaries. I was hoping, as were you, that the parties would nominate people we could trust and respect. That hasn't been the case. Secretary Clinton is a politician from start to finish. If elected, she will spend the next four years towing her party's line, fighting endlessly with the Republicans and focusing on one objective – getting re-elected. As for Mr. Trump, he's a cartoon character – a narcissist who has an extremely tenuous relationship with the truth. His temperament is best suited to kindergarten, not the Oval Office.

Those convinced that either Secretary Clinton or Mr. Trump is the perfect candidate for President should stop reading now. Those who aren't should come with me as I talk about my values and convey some hard economic truths you haven't heard in the vapid and juvenile presidential debates. What I'll convey may surprise and depress you. But I'll also show how

we can fix things. The fixes aren't painless. They are, however, fair, simple (postcard-length) and quick. They will restore the American Dream in short order.

So please read me out. Doing so will take an hour or two. Forwarding the book to everyone you know, liking [kotlikoff2016](#) on Facebook, and tweeting about my websites and campaign url ([kotlikoff2016.com](#)) will take a few minutes. Forming your 10-person voting block will take a bit more time – time you'd probably otherwise spend complaining about your choice between someone you detest and someone you can't stomach. Finally, writing me in on Election Day will take two seconds. With this small effort, we can, together, bring America back home.

### 3. Core Values

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Let me convey three core values that shape how I think about the world and approach solutions to its problems.

#### **Value #1: It's Our Children**

I value and care for others – their health, their happiness and their prosperity. I care not one iota about their race, their religion, their sex, whom they love, their nationality, their degrees, their wealth, their physical condition or their pedigree. I particularly care about our children, *all* our children. I also care deeply about people who aren't Americans. But a President's first priority is the security and welfare of the American public, including its future members.

When Bill Clinton ran for the presidency in 1992, his campaign's mantra was, *It's the Economy, Stupid*. His slogan was chosen to remind his campaign staff that the path to victory involved stressing economic problems. My mantra is *It's Our Children*. I didn't invent it to get elected. I've been focusing on the treatment of children for decades. A primary area of my research has been "generational accounting," a method to measure the fiscal burdens we are imposing on our children. It's no coincidence that the first three books I mentioned above all have the word "generation" in their titles.

*It's Our Children* should be our permanent national mantra. Unfortunately, it's far from it, thanks to the politicians. As

Jefferson put it well: “A politician looks forward only to the next election. A statesman looks forward to the next generation.”<sup>14</sup> Our country is sorely lacking in forward-looking statesmen and stateswomen. But we’re chock full of politicians – politicians who have gravely damaged our country and our children’s future. Unless they are stopped, they will do even more harm. Fortunately, a growing number of Americans are turning away from the politicians. The share of unaffiliated voters is now almost 50 percent – the highest percentage in 75 years.<sup>15</sup> Trust in the government – that is, in the two parties – is at an all-time low.<sup>16</sup>

Our treatment of our children is, to use Mark Twain’s expression, passing strange. Each of us would name our children as more important than anything else in the world. But as a group we let one-third grow up in abject poverty, provide many if not most with second-rate educations, watch two of them die each day from gun violence, let them go deeply in debt, let new technology take their jobs without raising as much as an eyebrow, incarcerate them at extremely high rates,<sup>17</sup> bequeath them old and crumbling infrastructure, leave them a mountain of fiscal bills, make them fight unwinnable wars, threaten their climate and place them at existential risk by letting rogue states acquire nuclear weapons. Add to this the high rate of youth unemployment and the fact that inflation-adjusted wages are no higher than they were in 1965, and *It’s Our Children* becomes a moral imperative.

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<sup>14</sup> <http://www.wisdomquotes.com/authors/thomas-jefferson/>

<sup>15</sup> <http://www.people-press.org/2015/04/07/a-deep-dive-into-party-affiliation/>

<sup>16</sup> <http://www.gallup.com/poll/5392/trust-government.aspx>

<sup>17</sup> [https://en.wikipedia.org/wiki/United\\_States\\_incarceration\\_rate](https://en.wikipedia.org/wiki/United_States_incarceration_rate)

I've been connecting these terrible dots for many years. I'm not the only one. Candidates Sanders, Clinton, Trump, Kasich, Cruz, Rubio and others have, as a group, raised many of these issues during their campaigns. The real questions are whether either party understands the magnitude of this collective child abuse, whether either party knows how to stop it and whether, given our nation's vicious political civil war, the two parties can work together without a politically neutral President to lead them.

## **Value #2: Respecting Others' Opinions**

My second core value is tolerance and respect for others' opinions, including those with extreme views. Just because they are extreme doesn't mean they are wrong, let alone completely wrong. I try to go beneath the words and figure out where people are coming from.

Take members of the Tea Party, many of whom view government as public enemy number one. That sounds extreme. But we are all fed up to the gills by government bureaucracy.

Consider as an example the paperwork facing a hypothetical small company – ABC Corporation, which sells its products in all 50 states. ABC has to file a federal corporate tax return annually, withhold FICA taxes for each employee monthly, withhold federal income taxes for each employee monthly, withhold unemployment insurance premiums for each employee monthly, withhold state income taxes for each employee in the 42 states and cities with income taxes monthly, file 42 state corporate income tax returns annually, file 42 quarterly estimated state corporate tax returns, file 50 state

sales tax returns (quarterly, in many cases), file up to 50 state use tax returns annually, file up to 50 state franchise tax returns annually, send separate annual reports to all 50 states, pay annual special registration fees to most states, file a special annual report to ABC's state of incorporation, pay a special fee to ABC's state of incorporation, and the list goes on and I have mentioned the local taxes. There are thousands of cities, towns, and other localities that levy their own taxes on small businesses. So ABC Corporation faces the prospect of filing thousands upon thousands of tax returns just for selling, say, a new hair dryer all over the country.

ABC, recall, is a small business. It can handle all this paperwork on its own – and have time to do nothing else – or it can hire a full-time bookkeeper, a payroll processing firm, an accounting firm that specializes in state income taxes, another accounting firm that specializes in state sales taxes and yet another firm to help it comply with reporting to its state of incorporation. This can easily cost ABC \$200,000 a year – a lot of money for a small company.

Social Security, with its maddening rules within rules within rules, like a million Russian nesting dolls, is another example of government out of control. Unfortunately, it's just one of roughly 40 transfer programs and tax systems that bureaucrats have, it seems, designed to drive us stark-raving mad. This complexity has a purpose. It provides the bureaucrats lifetime employment. It also let's politicians slip provisions into complex legislation that favor their contributors.

Now when a Republican like Ted Cruz says that he wants to abolish the Internal Revenue Service, my first reaction is: "Gee, that's crazy." But then I think some more and realize where he's coming from. Ted Cruz is not my friend, my

acquaintance or someone I admire. But he and his supporters are coming from a place the President has to understand. Abolishing the IRS isn't on my agenda. But radically simplifying our taxes and transfer programs certainly is. So too is directly helping small businesses comply with their paperwork at an extremely low cost.

Being able to listen carefully to people's legitimate frustrations and respond to them is a prerequisite for leading our country. I talk to both Republicans and Democrats and hear the same refrains. Republican House Speaker Paul Ryan and former Democratic Congressman Barney Frank have both told me, while shaking their heads, that the relationships between politicians of different parties are simply poisonous, particularly in the House. It's not just that Republicans and Democrats in Congress no longer grab a meal together to talk and listen to one another. It's far worse. House Democrats and Republicans seen riding an escalator together have, I've been told, been disciplined by their respective leaders! Yes, it's that crazy these days in D.C.

Each party speaks with its own buzzwords, which drive the other side to distraction. For example, when Republicans say the words "flat tax," the Democrats hear "help the rich," even though the Republicans are thinking about work incentives, including better work incentives for the poor. And when the Democrats say the word, "inequality," the Republicans hear "90 percent top tax bracket," even though Democrats have nothing close to that in mind.

Only a politically neutral President will be able to translate for each side and get each party to listen to the other. But my election will also materially alter how people, including members of Congress, view the two political parties. It will

demonstrate that the candidate, not their party, matters and that in the internet age candidates no longer need the parties to represent them. This will make our elected officials start thinking and acting for themselves, which will radically change personal dynamics and free members of Congress to enact real reform.

### **Value #3: Telling the Truth**

My final core value is telling the truth. This is the minimum every President owes the public, yet politicians aren't typically keen on the truth. They are sure it will cost them votes. But the cost of their dissembling, half-truths and outright lies is far too often measured in something far more precious than election victories. It's measured in the lives of young Americans sent to fight unwinnable wars and in the lives of civilians caught in the crossfire.

On the domestic front our politicians have, as I've said, been concealing our true fiscal condition for years. It's now truly grave. I'll make clear just how grave shortly. This policy of fiscal deception is a ticking economic time bomb that can destroy our own and our children's economic lives.

For me, telling the truth is simply instinctive. It's also the fundamental duty of an academic. Society has given academics a sacred and privileged duty to extend knowledge – knowledge of what's true, not what's convenient. So as President, you can count on me to tell you exactly where things stand provided, of course, that national security will not be jeopardized.

### **To Summarize**

Caring for others, particularly today's and tomorrow's children, respect for others, telling the truth – these are my core

values. I also deeply value grit and determination. People who know me know I'm tenacious and want things done yesterday. Our country can't afford to wait four more years to fix its tax system, its banking system, its healthcare system, its Social Security system, its energy policy, its education system, and so on. Nor can we wait any longer to seriously address the existential threats posed by North Korea, Iran and ISIS.

# 4. The Truth About Our Economy

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Here are some distressing facts that need to change *immediately*. Understanding them and how they interrelate is step one to changing them.

## Wages

Average weekly take-home pay, expressed in today's dollars, was \$770 in 1966. It's \$720 today.<sup>18</sup> That's 50 years of cumulative negative real (inflation-adjusted) wage growth.<sup>19</sup> Earnings per hour tell the same story.<sup>20</sup> The American Dream, in which each generation has a higher living standard than the previous one, lives and dies with these statistics. And they show the Dream fading before our eyes. There is one way to restore it: by radically and intelligently changing the course of economic policy.

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<sup>18</sup> [https://www.whitehouse.gov/sites/default/files/docs/ERP\\_2016\\_Appendix\\_B.pdf](https://www.whitehouse.gov/sites/default/files/docs/ERP_2016_Appendix_B.pdf)

<https://www.gpo.gov/fdsys/pkg/ERP-2010/pdf/ERP-2010-table47.pdf>

<sup>19</sup> Yes, fringe benefits have risen substantially. But much of this consists of higher employer-paid health insurance premiums, which have helped the medical profession, but haven't, on balance, dramatically improved Americans' health.

<sup>20</sup> <http://www.pewresearch.org/fact-tank/2014/10/09/for-most-workers-real-wages-have-barely-budged-for-decades>

## Jobs

Today, the U-6 jobless rate – the government’s most comprehensive unemployment measure<sup>21</sup> – is 10 percent. That’s far lower than the 17 percent rate recorded at the peak of the Great Recession. But it’s still extremely high – over two-fifths higher than the 7 percent rate recorded in 2000 – the best on record. It’s the rate we should be targeting.

Unemployment rates are cold numbers that tell us nothing about the underlying human tragedy of being out of work. There are now six million Americans who want a job and don’t have one. That’s enough adults to fill up Chicago and Los Angeles put together.<sup>22</sup> Each of the 6,000,000 is one of your children, one of your parents, one of your brothers, one of your friends, one of your neighbors, one of your acquaintances or simply one of your many fellow Americans you’ve yet to meet. Or they are you, if not today, then tomorrow.

Here’s the bottom line. Nine years after the Great Recession began and seven years after it ended (when the economy started re-growing, albeit from a very low level), we still have a huge missing-jobs problem. And for many, if not most of those with jobs, we have a huge bad-jobs problem – jobs that don’t pay enough.

## Real Median Family Income

This measure of economic wellbeing has shown some improvement, albeit meager. Real median family income has

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<sup>21</sup> U-6 unemployment includes part-time workers who want to work full time as well as discouraged workers – those who have given up active job search.

<sup>22</sup> <http://www.bls.gov/news.release/empsit.t01.htm>

risen by only 10 percent over the past 30 years.<sup>23</sup> Moreover, this increase is due to households working harder and longer, since they aren't earning more per hour. Extra work can take many forms – more hours per day, more days per week, fewer or shorter vacations, second jobs, becoming a two-earner couple, postponing retirement and other work adjustments needed to keep up with the ever-rising bills. American families are doing all these things to make ends meet. But it comes at a real cost – more time spent working and less time spent with one's family.

## Saving and Investment

In the early fifties, our nation saved and invested 15 percent of national income. Today we save and invest just 4 percent. Low investment means lower growth in labor productivity (output per hour worked). And lower productivity growth means lower real-wage growth. In the fifties and sixties, labor productivity grew at 2.8 percent per year. Since 1970, it's grown at 1.9 percent per year. That's a one-third drop.

## Inequality

Inequality is alive and well in America. As I'll explain, the fiscal system has dramatically limited its severity. But anyone who Googles Mr. Trump's yacht or Secretary Clinton's Wall Street speaking fees knows we increasingly live in a two-class society.

Even worse, inequality is on the rise. Average household real income of the top 5 percent grew 38 percent over the last

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<sup>23</sup> <https://research.stlouisfed.org/fred2/series/MEHOINUSA672N>

quarter century.<sup>24</sup> That's four times the growth recorded by the other 95 percent. Over the same period, the wealth share of the richest 5 percent rose to 63 percent from 54 percent.

Meanwhile, the poorest half of Americans own a mere 1 percent of total net wealth.<sup>25</sup>

Labor income inequality is also significant and increasing. The college-wage premium has increased 75 percent since the mid-sixties. Today's college grads earn twice what those with only a high school diploma receive.<sup>26</sup> This speaks to the loss of our middle class. Roughly 70 percent of our children never graduate college.<sup>27</sup> So if the poor represent 20 percent of the population and the rich 30 percent, that leaves 50 percent in the middle class. But if, hypothetically, all the rich have four-year college degrees, that leaves no one in the middle class with a college diploma. And the growth in the college-wage premium leaves the middle class close to the poor in terms of what they earn.

Another driver of inequality is the recent decline in labor's share of national income. Labor used to receive about 77 cents out of every dollar produced. In recent years, that share has dropped to 73 cents. This may be the harbinger of even more redistribution from workers to owners of capital.

Economic models in which smart machines compete directly with labor, which is increasingly the case, have one strong prediction – a decline in labor's share of national income,

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<sup>24</sup> Between 1989 and 2013, to be exact. See [http://www.federalreserve.gov/news\\_events/speech/yellen20141017a.htm](http://www.federalreserve.gov/news_events/speech/yellen20141017a.htm)

<sup>25</sup> Ibid

<sup>26</sup> See, in particular, Figure 1 in Acemoglu and Autor (2011).

<sup>27</sup> <http://www.politifact.com/truth-o-meter/statements/2015/apr/08/rick-santorum/70-americans-dont-have-college-degree-rick-santoru>

which is the sum total of all the wages and asset income we receive.

## **Immigration**

Immigration has been a major topic in the Republican presidential debates. But the discussion has been remarkably disconnected from the facts. Notwithstanding the suggestion that illegal immigrants are overrunning our borders, there are and have been more illegal immigrants leaving our country than entering it. Indeed, over the last decade, roughly 1 million more illegal immigrants have left our country than have entered it.<sup>28</sup> This is tribute, in large part, to our immense, decades-long effort to secure our borders. We still need to work extremely hard on border enforcement to eliminate illegal entry into our country. But we shouldn't presume nothing has been accomplished.

The real issue with immigration is legal immigration. We are adding 1 million legal immigrants to the population each year. The great majority are unskilled. This isn't hurting investment bankers or the software engineers at Google. This is hurting low-skilled U.S. workers.<sup>29</sup> It's the last thing we need if we are trying to restore our middle class.

## **Population Explosion**

Legal immigration is also fueling a veritable population explosion. Unless we reduce legal immigration, our population

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<sup>28</sup> <http://www.pewresearch.org/fact-tank/2015/11/20/what-we-know-about-illegal-immigration-from-mexico>

<sup>29</sup> <http://cis.org/immigration-and-the-american-worker-review-academic-literature>

will rise by one-third – over 100 million people – in just 45 years. That's the current population of the Philippines. Most of these additional people will locate in the nation's major cities. Driving in our major cities at peak hours is already a major challenge. With one-third more people, driving in our major cities may be like driving in Manila – an experience I don't recommend.

America's population explosion has far-reaching implications for wage growth, jobs, productivity growth, public services, infrastructure, congestion, public transportation, the education system, agriculture and our nation's ability to reduce its carbon footprint. Yet, neither Secretary Clinton nor Mr. Trump seem aware of the great demographic changes we have underway. It's one thing to consciously let your population explode. It's another to do so with no planning for the consequences.

I've talked to many people about this issue. Most argue that the country has plenty of space, that the Midwest has been emptying out and that the country could easily accommodate twice the number of annual immigrants. My fear is that what happens when other countries have experienced rapid population growth will happen here. People will move primarily into existing urban areas that are already highly congested. Egypt's three-largest cities including Cairo represent far less than 1 percent of its landmass. But they contain a quarter of that country's population.

## **Education**

I needn't tell you our education system is failing our children. Here's the report card. One in five of our children fail

to graduate high school. This places us in 22<sup>nd</sup> place among developed countries with respect to graduation rates – below the average of all 36 developed countries in the OECD. As noted earlier, 70 percent of our children don't attend or finish a four-year college. Our ranking based on college completion rates is 19<sup>th</sup> among OECD countries.<sup>30</sup> Our high schoolers rank 27<sup>th</sup> in math on the PISA (Program for International Student Assessment) test.<sup>31</sup> They rank 20<sup>th</sup> in science and 17<sup>th</sup> in reading.

The World Economic Forum ranks the United States 48<sup>th</sup> in quality of mathematics and science education. Sixty-nine percent of our public school students in fifth through eighth grades are taught mathematics by someone without a degree or certificate in mathematics. Ninety-three percent of them are taught the physical sciences by a teacher without a degree or certificate in the subject. We rank 27<sup>th</sup> among developed nations in the proportion of college students receiving undergraduate degrees in science or engineering. Finally, we graduate more visual and performing arts majors than engineers.<sup>32</sup>

Since I'm a professor, grading is a standard part of my job. In looking at these facts, I'd give our educational system a D. And I'd give my generation a failing grade for letting this happen.

## Federal Reserve Policy

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<sup>30</sup> <http://www.businessinsider.com/r-us-falls-behind-in-college-competition-oecd-2014-9>

<sup>31</sup> <https://www.oecd.org/unitedstates/PISA-2012-results-US.pdf>

<sup>32</sup> This is a statement about our dearth of engineers. It is not meant to denigrate the arts, which I very deeply respect and appreciate and which I would very strongly support as president.

The Federal Reserve is an independent branch of our government and needs to remain that way. This means the Fed needs to reach its best judgments in setting policy and stick to them no matter what elected officials and other outsiders think. That said, the Fed can benefit from considering alternative opinions about its actions.

In that spirit, let me suggest a few things for the Fed to consider. In 2007, the sum total of all the money the Federal Reserve had printed since its founding in 1913 was \$850 billion. Since 2007, the Fed has printed an additional \$3 trillion!

Printing money at an astronomical rate to pay government bills is the kind of behavior one would expect from a third-world country.<sup>33</sup> Fortunately, the vast reliance on the printing press has not yet kicked off inflation. The reason is that the Fed has been and continues to bribe the banks not to lend out the newly printed money either to businesses or households. Instead, the Fed is paying interest to the banks to keep this money on reserve at the Fed.

So far the policy has worked. Inflation has been extremely low. But if monetary conditions return to the norms of the early 2000s, we'll see prices quickly rise by – and yes this is no typo – 300 percent!<sup>34</sup> Such an outcome would spell hyperinflation.

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<sup>33</sup> Yes, this money has been used to purchase government bonds. But if you look through the sequence of transactions in which a) the Treasury sells bonds to get money to spend on goods and services or to make benefit payments, b) the Fed prints money and buys up those bonds, c) the Treasury pays the Fed interest and principal payments on the bonds the Fed has purchased, and d) the Fed returns those payments to the Treasury as profits of a government corporation, you realize that the Treasury and Fed have, together, engaged in a clever shell game. But the end result is clear. The combined actions of the Treasury and the Fed entail simply printing up new money to pay for government expenditures.

<sup>34</sup> By monetary conditions I mean the speed at which money circulates in the economy (what economists call the velocity of money) and rate at which banks expand the money supply by

Again, the Fed has to make its own choices. But a monetary policy sold to the public as *quantitative easing* has actually been a super high-risk policy to ease Congress' and the Administration's burden of collecting taxes to pay its bills. If the Fed were really interested in stimulating the economy, it wouldn't be rewarding the banks for not making loans.

The good news is that the current chair of the Fed, Janet Yellen, has brought what I view as reckless money printing by her predecessor to an end. But she is still paying interest on reserves and keeping interest rates abnormally low. I'd recommend a gradual but major change in both policies. Higher interest rates will help the elderly enjoy the level of retirement income they spent their lives saving to achieve, and their increased spending will in turn help stimulate the economy.<sup>35</sup>

If the quantitative easing were really a clear-cut winning formula, the Fed should purchase all \$13 trillion of government debt remaining in the hands of the public. Indeed, it should encourage Congress to cut all taxes to zero, have the Treasury borrow every penny it needs and then have the Fed print up trillions of dollars more to buy up the newly issued bonds.

This would be the height of irresponsibility. But such a policy, albeit, at a smaller scale, is exactly what the Treasury and Fed have pursued for most of the last decade. And, following the Fed's example, the Bank of England, the European Central Bank, and the Bank of Japan have engaged in much the same policy placing their countries at considerable risk for future inflation.

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making loans (what economists call the money multiplier).

<sup>35</sup> I am not concerned about higher interest rates reducing investment. U.S. corporations are flush with cash that they can invest.

## **Turning the Corner**

Why has the American economy been dead in the water for so long? There are many smoking guns and we're not going to pin down which one is producing the most smoke. Second-rate education is certainly high on my list. So are our miserable saving and investment rates. Competition with foreign workers, competition with machines and competition with low-skilled immigrants, especially in low-skilled jobs, have also done a number on American workers.

But the government has also played a major role in discouraging employment and lowering wages by confronting small businesses with the massive red tape I discussed above and large businesses with rates of corporate taxation that are far higher than in other developed countries. Yes, corporate tax collections are very low due to myriad loopholes. But our corporate income tax, while collecting precious little revenue is, nonetheless, producing huge incentives for companies to operate outside the U.S.

Another job killer is our long-standing decision to have our employers oversee our healthcare, saving and financial investment decisions via the healthcare and retirement plans they provide. Our employers are not our friends, they are not our parents, and they are not our government. They should not be deciding what healthcare we receive, how much we can save on a tax-sheltered basis, how and with whom we invest our savings and, thanks to these decisions, what we pay in taxes. The business of America's businesses should be just that, business. It's time we have our companies get back to their jobs – hiring, investing and, yes, making money. My plans to fix

Social Security, healthcare and the tax system will, as a byproduct, do precisely this. The economic impact, in conjunction with the reforms themselves, should prove dramatic.

Finally, let me point out that the largest recession in the postwar period – the Great Recession, from which we are still very much recovering – did not need to happen. Wall Street and politicians were in bed together, and the result was a disaster for Main Street. Chapter 10 provides a simple means to make Wall Street permanently safe for Main Street.

# 5. Bankrupting Our Children

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U.S. official net debt – the debt in the hands of the public, i.e., the debt that hasn’t been bought up by the Federal Reserve with newly printed money – stands at \$13 trillion.<sup>36</sup> This is a huge sum, equivalent to three quarters of U.S. GDP. But it’s just the tip of the iceberg when it comes to actual U.S. red ink. As I mentioned earlier, our politicians have kept most federal obligations off the books and, therefore, out of sight.

Take your future Social Security benefits. Uncle Sam owes you this money no less than he owes you coupon payments on the U.S. Treasury bonds you might possess. But not a penny of his obligation to send you your Social Security checks is added to the \$13 trillion when Uncle Sam reports his net debt.

The method of deception is simple. Congress calls your future Social Security benefits a “transfer payment,” whereas it calls your future Treasury coupon payments “debt service.” Then it declares that only the present value of future debt service (this is the aforementioned \$13 trillion) constitutes official debt. Present value simply refers to the financial method of calculating what a dollar either paid or received in the future is worth today.

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<sup>36</sup> The gross federal debt stands at \$18 trillion, but since the Federal Reserve has purchased \$5 trillion of these Treasury bills and bonds, the debt in the hands of the public is roughly \$13 trillion.

But what words Congress uses to call the dollars it takes in or hands out doesn't change economic reality. No matter what Congress calls Social Security payments, it owes you, me and everyone else this money just like it owes you, me and everyone else future payments on the Treasury bonds we hold. All of these future payments represent government I.O.U.s.<sup>37</sup>

Even those payments that are far in the distant future are obligations, which can be ascribed a present value. Of course, a dollar that the government will need to pay in, say, 500 years, won't have much of a present value today. But it won't be zero and it can't be ignored in the accounting.

How much should we add to the \$13 trillion if we want to include our government's Social Security debt? The answer, according to the system's actuaries, is \$26 trillion. This figure looks at the infinite horizon, but does proper present value accounting. It also nets out the present value of all future taxes and the value of the system's trust fund. If we add the \$26 trillion in Social Security red ink to the \$13 trillion, we get \$39 trillion, which is more than triple the official debt held by the public!

But why stop with Social Security I.O.U.s? What about Uncle Sam's commitment to pay us Medicare benefits? Projected Medicare benefits also have an actuarial present value, which can be measured and put on the books. In fact, every dollar the government is projected to spend, whether the

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<sup>37</sup> The two types of obligations have different characteristics (e.g., Social Security benefits stop when you die, whereas the coupon payments stop when the bond reaches maturity), but this is just a matter of proper financial valuation. Social Security's actuaries are, by the way, understating the true value of the system's net liabilities by roughly a quarter because they use a discount rate that's too high given the risk properties of the benefits being promised and the taxes being collected. See <http://www.kotlikoff.net/content/true-cost-social-security> for an analysis of this.

dollar is labeled “debt service,” “transfer payments” or “discretionary spending” (such as defense expenditures or interstate highway repairs), represents a government liability. And every dollar the government projects collecting in taxes represents an offsetting government asset.

Economics tells us we should put everything on the books, including the present value of every dollar the government expects to pay in the future net of every dollar it projects to receive. We economists call this difference the *fiscal gap*, which I previously mentioned.

The fiscal gap is the true measure of a country’s financial condition. It boils down, in a single number, the extent to which the government’s finances don’t add up. It tells us how much we need to raise taxes to cover all the spending the government has planned. Alternatively, it tells us how much we need to cut that spending to live within the taxes the government expects to collect.

So how big is our government’s fiscal gap?

*\$199 trillion!*

Yes, you read that correctly. Our true fiscal indebtedness is 11 times larger than the \$18 trillion you’ve been told our government owes. Its tremendous size can be summarized with these five words: *Our government is dead broke.*

The fiscal gap is, in essence, our nation’s credit card bill. Like our own credit card bills, it can’t be wished away and keeps getting bigger, thanks to interest charges, if it goes unpaid. In fact, it’s growing at about \$5 trillion a year.

There are different ways to close the fiscal gap. One is to permanently raise, starting today, every single federal tax by 53

percent. Alternatively, we could cut all federal expenditures by 34 percent. A third option is to combine a smaller tax hike with a smaller spending cut.

Yes, we can keep waiting to address our fiscal shortfall. But the longer we wait, the more we put future generations on the hook. If, for example, we wait 20 years to act, the required across-the-board tax hike will be 69 percent, not 53 percent. Or if we wait 20 years to cut spending, the required across-the-board spending cut will be 42 percent, not 34 percent.

Herb Stein, President Nixon's chief economist, famously said, "Things that can't go on will stop." This quaint phrase suggests that it makes no difference when we get our fiscal house in order. Nothing could be further from the truth. Here's the truth. *Things that can't go on will stop too late, especially for our children.*

We Americans are a moral people. We believe in doing the right thing. Waiting to close the fiscal gap is highly immoral. The longer we wait, the bigger the tax hikes or spending cuts our children will bear and the more of these burdens we will escape. And make no mistake, forcing, for example, our kids to face 69 percent higher taxes than we've been paying is an act of absolute immorality. It's also destined to destroy their economic lives.

How did the fiscal gap get so large? It didn't happen overnight. Each administration and Congress, going back to the Eisenhower presidency, has done its part to exacerbate our financial shortfall. Much of the fiscal gap is the result of politicians running take-as-you-go policy. The policy works like this. The politicians take money (e.g., Social Security contributions) from young people, give it to old people in cash

or healthcare benefits, but keep the young people happy by promising them large benefits when they're old. (Note that the pols don't call this current borrowing and future debt service. Rather they call it current taxation and future transfer payments.)

If there were always enough young people coming along and if they were always earning enough to fully pay off the contemporaneous old people, there'd be no impact on the fiscal gap. But our postwar intergenerational chain letter is failing like all chain letters do, eventually. Ours is running into the baby boomers' baby bust, which refers to the fact that the massive baby boom generation chose to have fewer children per person than its parents did. This is reducing the number of young people relative to old people through time. In addition, real wages have, at least on average, stopped growing.

Yes, the 1 million or so in annual immigration is bolstering the workforce. But it's not helping us with our chain letter. Immigrants, given their skill composition, cost our country roughly as much in benefits as they contribute in taxes.

Ironically, the politicians' take-as-you-go Ponzi scheme has, in part, self-destructed because they didn't understand that their scheme would affect real-wage growth. Taking more money that young people would otherwise have saved and invested and giving it to older people to spend has gradually, but relentlessly, reduced national savings and domestic investment. The lack of investment has, in turn, adversely affected worker productivity and, therefore, what the young earn. This string of events is exactly what economic theory suggests would happen and is fully supported by the data.

## **Why Aren't Congress or the Administration Disclosing Our Massive Fiscal Gap?**

You won't find the \$199 trillion fiscal gap on any government website. Why not? Why aren't our main fiscal watchdogs – the Congressional Budget Office (CBO), the Office of Management and Budget (OMB) and the General Accountability Office (GAO) – disclosing the fiscal gap? Calculating it takes just five minutes based on the CBO's long-term spending and tax projections.

Here's why. All three agencies are run by political appointees. And, to paraphrase Jefferson, their bosses care more about the next election than the next generation. I experienced this personally in working with OMB and other outside economists in President Clinton's first year of office. We prepared a fiscal gap analysis to be published in the President's 1994 Budget. The picture it painted wasn't pretty. It completely contradicted the narrative that President Clinton was a strong fiscal conservative. As a result, the document we prepared so carefully over several months was censored two days before the budget was published.

The same thing happened under President George W. Bush. In 2002, then-Treasury Secretary Paul O'Neill commissioned a fiscal gap analysis for inclusion in the President's 2003 Budget. On December 7, 2002, Secretary O'Neill was summarily fired, and the Treasury economists preparing the analysis (two of whom are former co-authors) were immediately informed that their year-long study would never see the light of day. In President Bush's case, the concern was passage of Medicare Part D. The Bush Administration wanted nothing in the press to

suggest that our children couldn't afford paying for the existing Medicare system, let alone a major expansion.

Neither Secretary Clinton nor Mr. Trump have mentioned the fiscal gap once during their campaigns. Either they don't understand the concept and, therefore, don't comprehend our nation's fiscal insolvency, or they do and are afraid to tell the truth.

## How Can Anyone Running for President Not Discuss Our Fiscal Gap?

Being ignorant or feigning ignorance of the fiscal gap is not easy. Given the labeling problem, it's the only means of assessing a country's solvency. I co-developed fiscal gap analysis in 1989 – that's almost 30 years ago – with University of California at Berkeley economist Alan Auerbach and Cato Institute economist Jagadeesh Gokhale. We did so under the heading of *Generational Accounting*.

Governments all over the world have been doing comprehensive fiscal gap accounting on a routine or periodic basis. The same is true of the International Monetary Fund, the World Bank and the European Commission. Two prominent left- and right-leaning think tanks – the Brookings Institution and the Cato Institute – are also producing fiscal gap analyses, typically every year. For my part, I've been discussing our fiscal gap in public forums and with the media for years.<sup>38</sup>

Unlike Secretary Clinton and Mr. Trump, not all politicians are ignorant or dissembling about the true state of our fiscal

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<sup>38</sup> An example is my July 2014 New York Times Op Ed, entitled *America's Hidden Credit Card Bill*.

affairs. In 2014, Senator John Thune, a Republican from South Dakota, and Senator Tim Kaine, a Democrat from Virginia, introduced the Inform Act. I was heavily involved in conceiving and drafting the bill, while a millennial group called The Can Kicks Back did the yeoman's work to make it a reality. The bill would require that the CBO, GAO and OMB do fiscal gap accounting on a routine basis. Were this to happen, the press would be forced to cover the public releases of the fiscal gap measurements, and the politicians would be forced to address the problem.

Senators Thune and Kaine sent a joint letter to all 98 of their colleagues asking them to co-sponsor the bill. Only a handful of Democrat and Republican senators, five to be exact, agreed.

My reaction was to ask economists for help. I sent an email to every economist I knew requesting they endorse the Inform Act at [www.theinformact.org](http://www.theinformact.org). And I asked them to forward the email to every economist they knew. To date, over 1,300 economists have endorsed the bill, including 17 Nobel Laureates and almost every American who has received the prize in economics. The endorsers span the entire political spectrum and every top economics department in the country. They also include very senior former government officials.

Once the endorsements came in, I, together with the leaders of The Can Kicks Back, raised over \$50,000 to run a full-page ad in *The New York Times* containing a letter to the President and members of Congress asking them to pass the Inform Act. Each and every endorser of the bill was listed in the ad, which ran in *The Times* on October 22, 2013.

The reaction from President Obama? Not a word. The reaction from members of his administration? Not a word? The

reaction from members of Congress who hadn't sponsored the bill? Not a word. What about the media? Did anyone in the press write a single word about the bill or its overwhelming endorsement by the economics profession? Not a word.

As President, I would seek immediate passage of the Inform Act, which represents the only way we can gauge our or any country's true fiscal condition.

## **Closing Our Fiscal Gap**

Here's the bottom line. Our country is broke. It's not broke in 50 years or 30 years, or 20 years or 10 years. It's broke today. And we have to act today so we don't confront our children with even bigger tax hikes or benefit cuts in the future.

My plans for fixing taxes, healthcare, Social Security and energy policy will collectively eliminate our fiscal gap. They will do so with maximum efficiency and the least disruption to peoples' economic lives. My package of reforms will also provide the financial headroom for essential investment in infrastructure, basic research and education. Equally important, they will resurrect our economy and produce many more higher-paying jobs, far higher national saving, massive domestic investment and rapid economic growth.

# 6. Transforming Our Economy

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Our economy has been failing for decades. The politicians have seen to it. It's now time to change course and take the many steps, large and small, to restore the American Dream.

These steps do not include business as usual, which Senator Clinton appears to be offering. Nor do they include destroying our trade relations or reneging on our national debt, which Mr. Trump seems to advocate. The steps most certainly do include fundamentally reforming our tax, Social Security, healthcare and banking systems. They also entail leveraging technology to dramatically improve and equalize education at the primary and secondary levels. And they involve substantially upgrading our nation's infrastructure and funding basic research at a much higher level.

All this needs to be done by someone who knows what she's doing and is fully aware that every dollar spent by the federal government comes with a huge opportunity cost. It's a dollar that taxpayers would otherwise be using to feed their kids, pay for college, pay off credit card bills, cover healthcare cost, etc.

Let's start with tax reform, which is the quickest way to achieve rapid growth in jobs, productivity and real wages.

## Tax Reform

Tax reform, if done right, can make a huge difference. A

telling example is the Irish Miracle that started in 1987. Thanks primarily to a major and intelligent tax reform, Ireland moved from being one of the lowest per-capita income countries in the European Union to the second highest – *all in the space of a dozen years!*<sup>39</sup>

My tax reform, detailed in the next chapter, would make the United States the most tax-attractive country in the developed world. This would bring large amounts of investment to our country. And this influx of capital will lead to many more jobs and significantly higher wages. These impacts won't happen overnight, but they will happen quickly.

When I speak about tax reform, I do so with specific knowledge. First, I'm well-versed in how other countries have changed their tax systems and the effects of those changes. Second, my main area of research is public finance. Hence, I know how to properly design tax and other fiscal reforms. Third, I've been heavily involved in building large-scale dynamic computer simulation models to evaluate fiscal reforms. Yes, the real world doesn't fit perfectly into any economist's model. But I wouldn't substitute casual thought for disciplined thinking about the economy and economic reforms.

Alan Auerbach, a leading public finance economist at UC Berkeley (whom I mentioned earlier), and I began building computer simulation models starting in the late seventies.<sup>40</sup> Our models feature neither supply-side economic voodoo (“tax cuts will pay for themselves”) nor demand-side economic voodoo (“increased government spending will pay for itself”). Instead,

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<sup>39</sup> [https://en.wikipedia.org/wiki/Celtic\\_Tiger](https://en.wikipedia.org/wiki/Celtic_Tiger); unfortunately, Ireland was very badly hurt by the global Great Recession, which struck there starting in 2007, and has yet to fully recover.

<sup>40</sup> See Auerbach, Alan J. and Laurence J. Kotlikoff. 1987. *Dynamic Fiscal Policy*. Cambridge University Press.

they are grounded in well-established economic behavior and standard economic theory. This includes the proposition that, absent better design of taxes and other policies, there is no free lunch. Stated differently, if we want to improve the economy in a way that benefits us all, we'd better do so very carefully. This is where having a trained economist at the reins can make a big difference.

Over the years, versions of what is known as the Auerbach-Kotlikoff (AK) model have been used around the world to study fiscal reform, demographic change, education policy, generational policy, trade policy and many other issues. Some of this work has been done at the governmental level. Indeed, both the Congressional Budget Office and the Joint Committee on Taxation have used versions of our model to assess the economy's response to alternative fiscal reforms. For my part, I've used our model to help develop my proposed tax reform.

## My Tax Reform – a Quick Overview

My tax reform is designed to stimulate the economy, raise real (inflation-adjusted) wages by at least 10 percent, increase GDP by roughly 15 percent, produce at least 25 percent more revenue, improve tax fairness (progressivity) and provide far better incentives to work, particularly for the poor.

My reform eliminates three highly complex and dysfunctional taxes and replaces them with four new and extremely simple ones. It also dramatically modifies the FICA payroll tax.

Here are the highlights. Apart from transition rules<sup>41</sup> that

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<sup>41</sup> This refers to collecting postponed taxes – taxes that companies already owe, but have not yet paid. Examples here are corporate taxes on overseas profits that have not yet been

would collect deferred taxes, I eliminate the corporate income tax, the personal income tax and the estate and gift tax. In their place, I institute a business cash flow tax, also called a value added tax (VAT),<sup>42</sup> a progressive personal consumption tax, an inheritance tax and a tax on carbon.

Replacing the corporate income tax with a business cash flow tax will leave the U.S. with the lowest corporate tax rate in the developed world, namely zero. Yet the business cash flow tax will collect far more revenue from businesses than the corporate income tax. What it won't do is tax, on an effective basis, any income that businesses, be they American or foreign, derive from making new investments in the United States.<sup>43</sup> This is the reason that U.S. and foreign companies will rush to invest and hire here.

*The New York Times* is very careful when it comes to publishing op-eds advocating tax reforms, especially those that might seem, whether true or not, to help the rich. But *The Times* recently published a column I wrote entitled “Abolish the Corporate Income Tax.”<sup>44</sup> The column was based on findings from the AK model.<sup>45</sup> Persuading the very left-leaning

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repatriated and personal taxes on 401(k) balances that have not yet been withdrawn.

<sup>42</sup> This is Alan Auerbach's “Modern Corporate Tax,” but with no deductions for wage payments. For tax aficionados, this is a destination-based, subtraction-method VAT with some wrinkles to ensure that companies operating in the U.S. face no effective taxation on their U.S. investments.

<sup>43</sup> Under the business cash flow tax, businesses get to immediately write off or expense their investment. This fully offsets from a present value perspective the future taxes arising from income earned on this investment. Hence, the bottom-line, effective present value tax on additional investments is zero.

<sup>44</sup> <http://www.nytimes.com/2014/01/06/opinion/abolish-the-corporate-income-tax.html?ref=opinion&20>

<sup>45</sup> <http://www.kotlikoff.net/sites/default/files/SIMULATING%20THE%20ELIMINATION%20OF%20THE%20U.S.%20CORPORATE%20INCOME%20TAX.pdf>

*Times*' editorial board that replacing the corporate income tax with a progressive alternative just might make sense for low-and middle-wage workers as well as for the economy was no minor feat. It's testimony to the power of apolitical economic analysis – analysis that invokes neither right-wing nor left-wing free-lunch fantasies – to get people to listen and learn.

The personal consumption tax, the second new tax I'd institute, was first proposed in 1996 by former Democratic Senator Sam Nunn and former Republican Senator Pete Domenici. They called it the USA Tax. At the time, many people felt it would be hard to implement given the reporting requirements. But 20 years is a long time and what once needed to be reported on paper can now be reported electronically. Consequently, personal consumption taxation is now an eminently practical option.

My personal consumption tax would be highly progressive. Only the top 20 percent of households when ranked by spending would pay this tax. All other households would be exempt and file no returns. For them, April 15<sup>th</sup> would be just another day!

Moreover, the tax would exclude consumption paid out of wages. Hence my personal consumption tax won't penalize anyone for working.<sup>46</sup> What it will do, as explained in the next chapter, is make absolutely sure the rich, particularly the superrich, pay their fair share of taxes.

My proposed inheritance tax would tax all gifts and inheritances received above a high threshold. The tax would be

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<sup>46</sup> In effect, my progressive personal consumption tax taxes spending done by the rich out of their existing wealth, not their current or future wages or, for that matter, the wealth they accumulate in the future by other means.

extremely simple and permit no loopholes. The rich could not avoid it with trusts, life insurance policies or other estate-planning tools. None of them would be legal.

The remaining new tax is the carbon tax. This tax would be designed to actually reduce carbon dioxide emissions. As discussed below, given the timing of their implementation, our current carbon policies, including the recent Paris Accord, may actually be raising global emissions and thereby accelerating the increase in the planet's temperature.

Another key provision of my tax reform is eliminating the ceiling on Social Security's FICA payroll tax. Currently, only wages up to \$118,500 are subject to the full 15.3 percent FICA tax rate. Under my reform, the FICA taxable-wage ceiling is eliminated. Hence, our nation's highest earners will be treated like today's lowest earners. They will pay FICA taxes on every penny they make.

## **Improving Incentives to Work, Especially for the Poor**

Employment is a two-sided coin. It requires people eager to work not just people eager to hire. Our current federal and state fiscal system has roughly 40 different tax and benefit programs. Many are embedded in the federal income tax. None was designed with any thought as to their combined impact on work incentives. Consequently, for millions of Americans, working and earning more means not just paying a great deal in extra taxes but also losing a great deal of existing benefits.

Take a low-wage single mother with three children earning \$35,000. If she earns an extra \$1,000, she will pay \$153 more in FICA taxes, lose \$211 in Earned Income Tax Credits and lose \$240 in food stamps. She will also pay state income taxes

and state sales taxes (when she spends her wages) totaling roughly \$100. Furthermore, this mom will likely be enrolled in Obamacare. In this case, earning the extra \$1,000 will cost her \$253 in extra healthcare costs.<sup>47</sup> The sum of all these additional explicit and implicit taxes is close to \$1,000! Hence, earning the extra \$1,000 for herself and her children will produce almost no additional income, on balance. This mother, like millions of our poorest citizens, has been placed in a *poverty trap* thanks to our confiscatory tax and benefit system.

Abolishing America's poverty trap, which, for decades, has been ensuring that the poor stay poor, requires radically changing not just our tax system but also how we provide government benefits. My tax and benefit-program reforms ensure that all Americans – poor, middle class and rich – face an identical 30 percent marginal tax on earning extra income. So the mom earning \$35,000 who gets a \$1,000 raise will pay \$300 in taxes, not \$1,000 in the form of additional taxes or lower benefits. A millionaire who earns an extra million dollars will pay \$300,000 in extra taxes.

When you put together the effects of all 40 programs, typical U.S. workers now pay 40 cents on every dollar of extra earnings.<sup>48</sup> But, as the above example illustrates, far too many American workers are in dramatically higher marginal tax brackets. Hence, having a uniform 30 percent marginal tax rate

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<sup>47</sup> I'm assuming the mom lives in Cleveland. The extra \$253 reflects both a decline in payments for care by the government and an increase in health insurance premiums. See <http://kff.org/interactive/subsidy-calculator/#state=oh&zip=44101&income-type=dollars&income=35000&employer-coverage=0&people=4&alternate-plan-family=individual&adult-count=1&adults%5B0%5D%5Bage%5D=30&adults%5B0%5D%5Btobacco%5D=0&child-count=3&child-tobacco=0>

<sup>48</sup> See <http://www.kotlikoff.net/node/541>

on labor income will significantly improve work incentives, particularly for the poor and for those in their early 60s.<sup>49</sup>

## Progressivity of My Fiscal Reforms

My fiscal reforms are, collectively, highly progressive. The business cash flow tax represents an indirect consumption tax. Consequently, it taxes the resources – wages and wealth – used to pay for consumption. Hence, the business cash flow tax is, in part, a wealth tax. Second, the progressive consumption tax will tax all consumption of the rich that's financed out of their wealth. So this represents a second major wealth tax. Third, eliminating the ceiling on Social Security benefits, without providing additional benefits under the old system (see chapter 9), transforms our most regressive tax – the FICA tax – into a proportional tax. Fourth, the inheritance tax will limit the transmission of wealth across generations in a way that the estate and gift tax are certainly not doing. Fifth, as discussed in the next chapter, my reform includes a fixed payment per American in lieu of the Earned Income and Child Tax Credit. This is another progressive element since this fixed payment will represent a trivially small share of resources for the rich but an important source of income for the poor. Sixth, I replace the Food Stamps program with three free meals provided to children five days a week at schools located in low-income

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<sup>49</sup> There are workers who face a lower than 40 percent effective federal marginal net tax rate. But raising their federal marginal net tax rate to 30 percent in order to lower the marginal net tax rate of those locked into poverty will, for technical reasons, be a major net benefit to society. Many of those in their early sixties face Social Security's Earnings Test. But, as I pointed out in a recent NY Times op-ed with Robert Pozen, entitled *Let Older Americans Keep Working*, the Earnings Test places many workers in their early sixties in marginal tax brackets, when it comes to earning more money, that are 33 percent to 50 percent higher than they'd otherwise face. And, remarkable, the Earnings Test is intentionally designed to raise essentially no revenue.

neighborhoods as well as direct food distribution to adults and children in these neighborhoods. Parents could join their school-age children for dinner at their children's schools. The mechanisms for food distribution will be via local food distribution centers and mobile food distribution for those who can't easily reach the centers because of travel time or problems with mobility. The last thing I want to do is stigmatize anyone. But we need to give food assistance to the poor while preserving their incentives to work. Providing food stamps and then taxing them away at 24 cents on the dollar earned will maintain the poverty trap the poor need so desperately to escape.

For those who believe the current income tax is a hallmark of progressivity and that its retention is essential to retaining a progressive fiscal system, I invite them to meet with some of our nation's roughly 2,000 billionaires. If you ask them what they pay in income taxes, they will smile and say, "The rich don't pay income taxes. We borrow against our wealth to consume as much as we want, don't realize our capital gains or use like-to-like transfers when we want to trade real estate, leave our appreciated assets to our children with a step-up in basis to avoid any end-of-life capital gains taxation, and then use a variety of trusts, life insurance, and other estate-tax avoidance mechanisms, all fully legal, to avoid paying estate taxes." This game of cheat the tax man with high-class lawyers would come to an abrupt end under my presidency. And those lawyers would be forced to start doing something that's actually socially productive.

## **'The Business of America is Business'**

This is President Calvin Coolidge's famous 1925 quote. It was true back then. It's not true today. Today we've saddled American companies with all manner of responsibilities that keep them from doing what they are here for – to make money and, in the process, hire us.

Putting employers fully or partly in charge of our defined benefit plans, our 401(k)s and similar tax-favored saving plans, our health insurance plans, our retirement account investment options, our life insurance holdings and our disability insurance – all of which help determine our taxes – should never have happened.

If businesses were doing a fine job of handling these responsibilities, it would be one thing. But that's far from the case. An entire generation of baby boomers is about to retire. According to a careful study by Boston College economist Alicia Munnell and her co-authors, over half of U.S. Baby Boomers are woefully ill-prepared financially for a retirement that may last longer than they worked. Many apparently thought someone else was handling their nest eggs – whether their employers or Social Security. Not the case. Their employers didn't contribute enough to their workers' retirement accounts. Nor did they cajole their workers into contributing enough. As for Social Security, it stopped sending out benefit statements years ago, so now many people have no idea how little they will receive.

It's time to get employers out of our personal financial lives and get them back to running their companies. My healthcare reform, discussed in chapter 8, would make employer-based healthcare largely redundant. My tax plan would eliminate federal tax breaks of all kinds to employer-provided benefits. My Social Security plan would provide adequate retirement

benefits, life insurance and disability benefits to workers with no involvement by employers (or Wall Street). Eliminating all of these unnatural responsibilities of employers will, like the elimination of the corporate income tax, make the U.S. *the* place to do business.

## **Eliminating the High Fixed Costs of Starting and Running a Business**

It's also time to help businesses, particularly small businesses, operate in all 50 states without having to file, many on a quarterly or monthly basis, 50 state corporate tax returns, 50 annual reports, 50 sales tax returns, 50 state-tax withholding reports, 50 state-unemployment insurance contribution reports and so on. The U.S. Small Business Association is trying to make it easier for businesses to start up in a single day. Their strategy is to streamline all the local permits and licenses they need to apply for.<sup>50</sup> That's a major improvement, but what it is not doing is helping small businesses handle the massive paperwork on the next day and all the days thereafter.

I'd establish a free federal website that companies could use to file all these documents and tax returns for all 50 states via a single return that would spit out the various tax liabilities for all 50 states. This would not preclude states from setting their own tax policies. It would simply facilitate filing the various returns across states based on the company's profit and loss statement. The system would be set up to strongly incentivize states and localities to base their tax collections on a uniform set of inputs.

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<sup>50</sup> <https://www.sba.gov/about-sba/sba-initiatives/startup-day>

Can this be done? Yes. Private accounting and back office management companies do this now. It just costs businesses an arm and a leg in time and money. The federal government could hire the best of these companies to build and maintain the free website I have in mind.

## **Expanding High-Skilled and Reducing Low-Skilled Legal Immigration**

As noted earlier, America has a negative net rate of illegal immigration but a large positive rate of legal immigration that adds an extra million or so primarily low-skilled workers to our population each year.

We are a land of immigrants, and we have and always should welcome large numbers of immigrants each year, especially refugees (regardless of their religion!) to our shores. But if we admit a large enough number to materially damage the earnings prospects of low- and middle-income workers, we've gone overboard. I think our current rate of low-skilled legal immigration has done just that.

I'd cut legal immigration of low-skilled workers by half. This will start taking pressure off low-skilled U.S. workers. By the same token, I'd raise high-skilled legal immigration by one-third. This will enhance the productivity of low-skilled workers, who will have more high-skilled workers with whom to work. It will also shrink the skill gap in wages. Over time, I think, it will make a very big difference in restoring our middle class.

For those who differ on this proposal, ask yourself whether you would open our borders to everyone in the world and who would be most hurt by such a policy. This would quickly lead

the U.S. to Third World status as measured by income inequality. We'd have a relatively tiny number of massively rich people and a massively large number of incredibly poor people with very few middle-class people in between. This, unfortunately, is what our immigration policy is promoting, albeit to a far smaller degree.

Or if you are a CEO and are making a bundle hiring low-skilled workers, ask yourself: how would you feel about a policy of permitting 1 million of so immigrants each year with exactly your skill set – all eager and prepared to take away your job?

## Federal Support of Day-Care/Pre-School

Paying for childcare is another major work disincentive, whose alleviation can boost the economy in both the short and long run. In the U.S., new mothers from low-income households pay roughly 30 cents of every dollar they earn on childcare, making it much harder for them to rejoin the workforce and get ahead. In Sweden, on the other hand, the figure is just 3 cents. Why the difference? The Swedish government, like a number of other advanced economies, provides highly subsidized daycare and pre-K centers for young children.<sup>51</sup> No surprise, then, that in Sweden the labor force participation rate of mothers with young children is one-third higher than in the U.S.<sup>52</sup>

We need to help mothers get back to work when they feel the time is right. Given the extra taxes that working moms pay,

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<sup>51</sup> <http://work.sweden.se/plan-your-move/school-and-preschool>

<sup>52</sup> [http://www.unavarra.es/digitalAssets/140/140609\\_Paper\\_Eva\\_Garcia-Moran.pdf](http://www.unavarra.es/digitalAssets/140/140609_Paper_Eva_Garcia-Moran.pdf)

providing subsidized childcare could well pay for itself or at least cover much of its costs. Subsidizing daycare and pre-K centers can also help children learn critical socialization skills.

Let me quote Nobel Laureate James Heckman on this subject. Heckman has spent much of the last decade studying the importance of and economic returns to investing in very young children, particularly those in economically disadvantaged households.

*The highest rate of return in early childhood development comes from investing as early as possible, from birth through age five, in disadvantaged families. Starting at age three or four is too little too late, as it fails to recognize that skills beget skills in a complementary and dynamic way. Efforts should focus on the first years for the greatest efficiency and effectiveness. The best investment is in quality early childhood development from birth to five for disadvantaged children and their families.<sup>53</sup>*

## **Supporting Family Planning**

The Republicans, particularly Carly Fiorina, have had a field day attacking Planned Parenthood. They did so based on a fraudulent film.<sup>54</sup> This is the depth to which our politicians have fallen – paying for the production and distribution of lies. Let me be very clear. I strongly support Planned Parenthood. It is helping women access their legal right to have an abortion

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<sup>53</sup> <http://heckmanequation.org/content/resource/invest-early-childhood-development-reduce-deficits-strengthen-economy>

<sup>54</sup> <http://www.politicususa.com/2015/09/30/cnn-david-daleiden-producer-doctored-planned-parenthood-videos-admits-fraud.html>

within roughly the first 22 weeks of a pregnancy. Equally importantly, it is heavily involved in family planning.

There is an enormous fiscal payoff to family planning. I view it as a crucial long-term investment for the economy. Opponents of family planning appear to be focused on whether or not a woman has a right to terminate unwanted, unplanned or forced pregnancies within the legal parameters set by the Supreme Court. I fully support the Supreme Court's decisions on this matter. But regardless of your feelings on abortion, family planning in advance of pregnancies is an entirely different matter. In our country, a quarter of a million teenagers have children annually.<sup>55</sup> Partly as a result, one in 10 children are growing up with grandparents. A total of 25 million children – more than one in three children – are growing up in single-parent households.<sup>56</sup> Even worse, children from single-parent households are, themselves, much more likely to have children as teenagers and much less likely to obtain secure jobs, let along well-paying jobs.<sup>57</sup>

The composition of families has changed radically over the years. In 1970, single women with children comprised 11 percent of the population. In 2010, they comprised 41 percent. The majority of these single-parent families are living in poverty. Worse still, 43 percent of the children in these families will remain impoverished into adulthood.

The societal costs are staggering. They include healthcare, welfare, food stamps, education and other subsidies, women

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<sup>55</sup> <http://www.cdc.gov/teenpregnancy/about/index.htm>

<sup>56</sup> <http://datacenter.kidscount.org/data/tables/107-children-in-single-parent-families-by#detailed/1/any/false/869,36,868,867,133/10,11,9,12,1,185,13/432,431>

<sup>57</sup> <http://prospect.org/article/consequences-single-motherhood>

not being able to enter the workplace, higher crime rates, and higher costs of incarceration. Effective family planning can go a long way to mitigating these costs. In 2010, the government spent \$2.4 billion on family planning services. The savings from reduced Medicaid, food stamps and welfare benefits appear to be vastly larger than these costs.

Colorado recently funded free contraceptives for all the safety-net health centers in the state. Women who voluntarily wished to plan their families were able to freely choose the method and get educated in its use. The result was a 40 percent reduction in teen birth rates, a 35 percent drop in abortions and a 25 percent decline in high-risk pregnancies.

Conservatives should love family planning because it greatly reduces government outlays, reduces abortions and gives more single women a chance to enter the work force, all at a modest cost that is more than made up in the first years. Liberals should love the huge potential reduction in poverty rates and the greater flexibility women have to manage their lives.

A greater investment in family planning may be the single most effective way of solving many of our most difficult domestic problems. Effective family planning requires not only investment but also education, so that every teenager and young adult, male and female, understands the benefit of family planning for their future.

## **Meaningful Educational Reform**

Our educational system has been and is playing a major role in turning America into a society of haves and have-nots. The *No Child Left Behind* educational reform passed in 2002 held

great promise, but it didn't work. Too many students failed the standardized tests and too many schools received failing grades. The response in our latest education bill – *Every Student Succeeds* – retains standardized federal testing in grades three through eight, but lets each state decide, within limits, how to handle failing schools.

Unfortunately, *Every Student Succeeds* is also no guarantee that every student will succeed. In many ways the new law simply throws up Uncle Sam's hands and tells state and local governments, "You figure it out." That said, this may well be our best move. By restoring more autonomy to states and local governments, we'll effectively end up running thousands of experiments across the country that can help each school district, each school and each teacher learn the best means to educate their particular students. This may involve charter schools, vouchers, magnet schools, home schooling, reliance on the Common Core and other current educational initiatives.

In short, when it comes to elementary and secondary education, if the federal government doesn't know what's best, it's in no position to dictate what's best. On the other hand, it has an obligation to intensely study what is and isn't working and make that knowledge instantly available to educators around the country.

Mr. Trump wants to shut down the Department of Education (DOE). I think doing so would be deeply misguided. The Department of Education is here to help determine what works – not just here at home but in other countries as well.

## **Making Vocational Education a Business Profit Center**

One example of where the DOE can matter is vocational

education. The DOE can learn and disseminate key lessons from Switzerland, Germany and other countries where education, particularly vocational education, is a major success. Those countries have lower youth unemployment rates and their education systems know how to work with businesses, large and small, in providing vocational education that pays off directly in terms of concrete, reliable jobs. These vocational programs often start and end in high school. Others extend to community colleges. Australia provides a successful example of using technical colleges, called TAFEs, to produce task-specific certifications that lead to immediate employment.

Companies that become truly engaged in vocational education do so, in large part, out of self-interest, namely to recruit new hires. The DOE should be working with top education officials from Switzerland, Germany, Australia and other countries to understand the precise nature of their vocational-education success stories and relay these formulas not only to educators but also to heads of human resource departments of American companies, both large and small.

This connects to my message to American CEOs, to wit:

“You have an obligation to your bottom line. And yes, we need to get government out of your hair and let you do your job. But you have an obligation to society at large, particularly when it comes to employing Americans and paying them decent salaries. You also can play a major role in educating and recruiting today’s youth. Bear in mind that today’s workers are your current customers and that today’s students are your future customers. The more you automate, outsource, offshore, etc., the less money your customers will have to buy what you make. And the less you help train America’s youth, the fewer qualified workers you will find to hire.”

It's time for American business to understand that the welfare and education of Americans are in large part its responsibility and that having each U.S. company act penny wise will be dollar foolish for overall American commerce, including their own businesses.

## Leveraging Technology to Equalize Educational Opportunity

I don't know enough yet about primary and secondary education to say for sure how to improve it. But I have two strong prior beliefs. The first entails leveraging technology to equalize educational opportunity. The second is to promote pre-K education.

Let me start with technology, where we have a unique opportunity at extremely low cost to do two major things: a) effectively lower classroom size and b) dramatically improve the quality of teaching. As President, I'd instruct our Department of Education to offer, free of charge, online learning to all schools across the country, as well as subsidies for equipment to deliver this learning to students on a one-on-one basis – learning that proceeds at the student's own pace.

These online courses would be available for each subject in each grade and would be produced by the top teachers in our country. The online classes would be engaging and challenging. Each lesson would be linked to an online test that checks a student's absorption of what was taught. Advancement to the next lesson would be predicated on achieving a passing score on the prior lesson. This makes learning dynamic and responsive to each student. None of us learn the same way. Technology can help us cater the

educational experience to the learning style of every student. For example, if a particular way of explaining fractions doesn't work, the online education would automatically try an alternative method.

This type of educational innovation is already underway. New York City is now engaged in a massive experiment in online and blended learning.<sup>58</sup> The term *blended* is critical. It means blending hands-on traditional teaching with new online educational tools. What's definitely not involved here is putting teachers out of jobs. Instead, it's using new technology to help teachers do their jobs better and more easily. It also gives teachers more one-on-one time to spend with their students.

## Very Early Education

The work by James Heckman and many other top researchers on educational achievement points to the need for early educational intervention with children not just to learn basic skills but also to learn patience, determination, perseverance, grit, call it what you will. There is growing evidence that developing grit and its close relatives as well as the ability to cooperate, work in teams, respect authority and respect one's peers – in short, to play well in the sandbox – may be as important as one's inherited genes in determining future economic success.

On that score, let me quickly point out that no one has yet discovered a smart gene. Moreover, which genes get activated is not predetermined at birth but is influenced in part, if not in the most part, by one's environment. This is why there is a

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<sup>58</sup> <http://ww2.kqed.org/mindshift/2011/03/18/new-york-city-schools-blended-learning-experiment>

pressing need for pre-natal education and parental education to assist parents in having and sustaining healthy babies during and after their pregnancies. It's also why I support universal federally funded pre-K education.

## **Halving Class Sizes in Low-Income Schools**

There appears to be good evidence that dramatically reducing class size can materially improve educational outcomes.<sup>59</sup> As President I would establish a federal version of Teach for America, which would add a federally paid teacher's aide to assist each teacher in each low-income school in the country. These aides would be available only to schools that did not cut back on their own number of teachers and teaching aides per student and that used their classroom space to the extent possible to reduce class sizes in half.

## **Getting Parents Involved**

Children have two sets of educators – their teachers and their parents. It's beyond time for parents to step up and make a serious commitment to their children's educations. To help make this happen, I'd make the abovementioned online courses available to parents so they could learn precisely what their children are learning. In this regard, I'd ask Congress to subsidize Saturday-morning parent education classes, which would teach mothers and fathers the skills needed to reinforce their children's educations when they are with their children at home. Some of these classes need to be centered around social, i.e., non-cognitive skills, so that parents can better teach their

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<sup>59</sup> <http://www.brookings.edu/research/papers/2011/05/11-class-size-whitehurst-chingos>

children the behaviors that will make them successful in the workplace.

## Other Initiatives

What else can the federal government do to improve primary and secondary education? Plenty. It can subsidize smaller class sizes. And it can expand its assistance to teachers in enhancing their own subject-matter educations by obtaining masters or doctoral degrees or otherwise furthering their subject-matter knowledge and teaching skills. I think No Teacher Left Behind should be an integral part of our country's educational agenda. Finally, teaching cannot be an occupation that pays less than plumbing, nor can it be done by just anyone regardless of their established knowledge. We need to pay our teachers better and, in exchange, expect a higher level of competence and achievement.

## Letting Students Borrow for Higher Education at the Federal Borrowing Rate

These days far too many students are going broke going to college. Outstanding student debt exceeds \$1 trillion.<sup>60</sup> Saddling an entire generation with excessive debt will leave them unable to buy homes and cars and start families, especially given their relatively low wages and high rates of unemployment. It will also push them to default. Over 7 million young men and women are currently in default on their

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<sup>60</sup> [http://www.brookings.edu/~/media/projects/bpea/fall-2015\\_embargoed/conferencedraft\\_looneyyannelis\\_studentloandefaults.pdf](http://www.brookings.edu/~/media/projects/bpea/fall-2015_embargoed/conferencedraft_looneyyannelis_studentloandefaults.pdf)

student loans.<sup>61</sup>

As President I would ask Congress to permit students to borrow for college tuition, as well as for room, board and books, at the 30-year Treasury bond rate, which currently stands at 2.6 percent. This is far lower than prevailing student loan rates, which range from 4 to 8 percent. I would impose a 1 percentage-point higher rate for those not completing their degrees. If the government is going to co-invest with students on their education, students have to fulfill their end of the bargain.

I would also permit those with outstanding student loans to refinance them at the same rate. These loans would be 30-year loans. Repayment would be limited to 10 percent of one's salary. Loan repayments would be deferred during spells of unemployment, periods of disability, periods of military service and periods of service with the Peace Corps, AmeriCorps and other federal service agencies. The balance of loans not repaid after 30 years, regardless of the length of deferment, would be forgiven.

This policy invests in our children's education. It's something we should do even were the payoff low. But the payoff will be high given current data on the college-high school wage premium and the significant difference in unemployment rates between those who complete high school and those who complete four years of college.

## **Basic Research and Development**

Government support of basic research and development

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<sup>61</sup> [http://ticas.org/sites/default/files/pub\\_files/cdr\\_2015\\_nr.pdf](http://ticas.org/sites/default/files/pub_files/cdr_2015_nr.pdf)

within government research centers or via government peer-reviewed grants is particularly high on my agenda. This R&D has brought us the internet, GPS, the human genome project, heart monitors, solar panels, optical digital recording technology, fluorescent lights, communications and observation satellites, advanced batteries now used in electric cars, modern water-purification techniques, supercomputers, more resilient passenger jets, better cancer therapies, and the list, which includes some key technology used by Google, goes on.<sup>62</sup>

What a spectacular record. Yet we've let federal R&D fall from 10 percent of GDP in the 1960s to less than 1 percent today.<sup>63</sup> Funding of NASA, the National Science Foundation, the National Institutes of Health, the Department of Energy and the Department of Defense have all been reduced and continue to be reduced relative to the size of the economy. In the field of particle physics, our country seems to have simply left the field when it comes to constructing large-scale particle accelerators. The big breakthroughs these days are occurring at CERN in Switzerland – the European Union's Organization for Nuclear Research.

As President I would ramp this research back up in all areas, including finding cures for both physical and mental illnesses. I think this is one of just two kinds of spending that can potentially pay for itself. The other is infrastructure investment.

## **Infrastructure Investment**

The American Society of Civil Engineers grades our

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<sup>62</sup> <https://www.americanprogress.org/issues/economy/report/2012/12/10/47481/the-high-return-on-investment-for-publicly-funded-research>

<sup>63</sup> <http://www.aaas.org/page/historical-trends-federal-rd> and data from [www.bea.gov](http://www.bea.gov)

country's infrastructure every four years. The year 2013 is the most recent year it awarded a grade. The grade was D+. The Society also estimated that raising our infrastructure grade from D+ to A would cost \$3.6 trillion. Infrastructure here refers to everything from our electrical grid to our airports, to our waste and drinking water systems.

The Society of Civil Engineers, like all guilds, past and present, is self-interested. More infrastructure work means more employment for its members. So we have to take its assessment with a grain of salt. Yet the Society backed up its D+ with significant detail. For example, it determined that precisely 85,033 bridges are "functionally obsolete." This is polite language for saying the bridges are unsafe. It's actually a worse rating than the "structurally deficient" rating given to the I-35W bridge in Minneapolis before it spectacularly collapsed on August 1, 2007, killing 13 people and injuring 145. Another example is the 14,000 dams the Society rates a "high hazard," meaning they can fail at any time and will kill people when they do.

The Flint lead-water poisoning of up to 6,000 children that occurred from 2014 through 2016 and Amtrak's 2015 train derailment near Philadelphia, which killed eight and injured 200, are more evidence of what the Society of Civil Engineers is warning about. It's not just the failure to replace failing infrastructure. It's also the failure to properly inspect, maintain, oversee and update the infrastructure that still has useful service lives.

We also aren't creating much in the way of new infrastructure. Take subways. We have 10 or so major cities, including Houston, Phoenix and Dallas, with over 1 million

inhabitants but no subways, even on the drawing boards.<sup>64</sup> This would be less of a problem if our population wasn't on pace, as mentioned, to increase by 100 million in 45 years. But it is. That extra 30 percent more people are going to need transportation not just within but between cities. Yet we have achingly slow movement when it comes to high-speed rail and airport infrastructure that is also being updated at, according to the engineers, so slow a pace as to merit a grade of D. Road repair and upgrading the country's electrical grid are also of critical necessity.

Inadequate infrastructure investment is not just a matter of public safety, although public safety is paramount. It also engenders major economic costs, as the Society's report makes abundantly clear. Much of this cost comes in a form that we may not immediately recognize. I'm referencing here the cost of our time, whether it be wasted sitting in traffic, traveling on slow trains or waiting to take off from overcrowded airports. Time is money, and, when we waste it due to ancient infrastructure (or outdated, mindless government bureaucracies), our living standards are lower as a result. It's high time to fix, upgrade and update our existing infrastructure and pay for it with taxes or reductions in less critical spending – not by printing or borrowing money, either on or off the books.

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<sup>64</sup> <http://www.governing.com/columns/urban-notebook/When-Will-the-US-Build-Another-Subway.html>

## 7. Fixing Taxes

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The personal income tax, the corporate income tax and the estate and gift tax all harm our economy on a daily basis by reducing our incentives to work, reducing incentives to invest in our country and distorting decisions about how to invest and what to produce. Each is riddled with loopholes, which let the rich, particularly the super rich, off the hook. And each comes with major compliance costs.

In 1913, when first instituted, the personal income tax ran 400 pages.<sup>65</sup> Today the code is almost 75,000 pages long! All those pages are there for three reasons: to provide loopholes for special interest groups who have bribed our politicians with explicit and implicit campaign contributions, to keep tax lawyers, accountants and government bureaucrats fully employed, and to drive us crazy.

The personal income tax is horribly complex because it's actually multiple tax systems disguised as one. Yes, it includes basic income taxation with eight progressive tax brackets.<sup>66</sup> But there's also the Alternative Minimum Tax, the Earned Income Tax Credit, the Child Tax Credit, the taxation of Social Security benefits, the Medicare high-income premium tax<sup>67</sup>,

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<sup>65</sup> <http://finance.townhall.com/columnists/politicalcalculations/2014/04/13/2014-how-many-pages-in-the-us-tax-code-n1823832>

<sup>66</sup> Including the zero bracket.

<sup>67</sup> This extra premium is determined based on federal personal income tax's determination of modified adjusted gross income, even though it is collected by the Social Security Administration.

PEP (the phase out of personal exemptions), PEASE (the phase-out of itemized deductions), the separate taxation of capital gains, the separate taxation of dividends, the high-income Medicare asset-income surcharge tax, the high-income Medicare labor-income surcharge tax, the taxation of retirement account contributions and withdrawals, the treatment of health savings accounts, the tax treatment of 529 educational saving plans, carried-interest taxation, and, well, I'll stop now to preserve your digestion.

The corporate income tax, meanwhile, collects less than 2 percent of GDP but is very successful in getting companies to headquartered offshore. Examples include Burger King, which is now Canadian, Medtronic, which is now Irish, and Tyco International, which is now Bermudian. These corporate inversions garner most of the press, but the far bigger story is that large international corporations, whether headquartered in the U.S. or abroad, face a 35 percent effective marginal corporate tax on the return to their U.S. investments. If they invest in any other developed country in the world, they face, on average, a 19 percent corporate tax.<sup>68</sup> As should be obvious, our 84 percent higher corporate tax rate makes our country uncompetitive. And much of the fallout lands on America's workers, who find far less demand for their services.

The estate and gift tax is also a very bad joke. The top marginal rate is 40 percent, but only 1 percent of the \$1 trillion or so bequeathed each year by the super rich is actually paid in taxes.<sup>69</sup> This comes thanks to a range of trust and life-insurance

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<sup>68</sup> <http://www.pollicyschool.ucalgary.ca/sites/default/files/research/tax-competitiveness-chen-mintz.pdf>

<sup>69</sup> <http://www.bloomberg.com/news/articles/2013-09-12/how-wal-mart-s-waltons-maintain-their-billionaire-fortune-taxes>

gimmicks that the rich use on a routine basis.<sup>70</sup> One tax expert, George Cooper, wrote a book about the estate tax that he appropriately titled “The Voluntary Tax.”<sup>71</sup>

## My Tax Reform

I’ve examined a host of tax reform proposals over the years, such as the FairTax, the Flat Tax, the USA Tax, the Value Added Tax (VAT), the Rubio-Lee Tax Plan, the Sanders Tax Plan, the Trump Tax Plan, the Clinton Tax Plan, the Modern Corporate Tax, the Competitive Tax Plan, the X-Tax, the Growth and Investment Tax Plan and several others. I’ve done and continue to do research on the economic effects, work incentives and fairness of different tax reforms. Indeed, together with several co-authors, I’ve done most of the basic research on the FairTax and testified to the House Ways & Means Committee about its merits.<sup>72</sup> I’ve also worked up two tax ideas of my own: the Purple Tax and the Common Sense Tax.

Almost all of these proposed reforms have great merit compared with what we now have. But none strikes me as achieving the right balance among our significant revenue needs, the requirement to maintain tax fairness/progressivity and the provision of far better work incentives. Consequently, I’ve combined what I think are the best elements of many of the above-listed plans in my own tax plan, which I’ve formulated in consultation with a number of public finance

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<sup>70</sup> <https://www.estateplanning.com/Understanding-Estate-Taxes>

<sup>71</sup> <http://www.amazon.com/Voluntary-Tax-Perspectives-Sophisticated-Regulation/dp/081571551X>

<sup>72</sup> The FairTax replaces all federal taxes with a federal retail sales tax.

experts.

When it comes to targeting revenue, my goal is to generate about 5 percent more revenue as a share of GDP. This is essential to help close the fiscal gap. My plans for fixing Social Security and healthcare will, over time, produce significant spending cuts without undermining retirement income or healthcare coverage. These reforms will, in conjunction with the higher revenue, suffice to fully eliminate the fiscal gap.

To repeat, my tax reform eliminates the personal income tax, the corporate income tax and the estate and gift tax *entirely*. (I would include transition rules to make sure unpaid taxes are collected.) In their stead, I would introduce four new taxes, significantly modify the existing FICA payroll tax, replace the Earned Income and Child Tax Credits with a direct payment to all Americans and eliminate the Food Stamp program in favor of direct food provision.

The latter two policies in conjunction with my healthcare reform are meant to help eliminate the poverty trap that confronts the poor with a terrible choice: *Stay unemployed or go to work for little or no net income after we've made you pay more taxes and taken away some or all of your tax credits, food stamps and healthcare benefits.*

Under my complete set of fiscal reforms, every American, with no exception, gets to keep 70 cents of every dollar he or she earns. That may seem low. But for most Americans, it's actually higher or far higher, especially in the case of far too many poor households, than what they now get to keep.

Another significant benefit of my plan is that the vast majority of Americans – roughly 80 percent – won't need to file any tax returns or deal with any government bureaucrats in

meeting their tax obligations, receiving basic health insurance and receiving income in old age.

## Criteria for Tax Reform

Fixing our tax-transfer system is imperative. But the fixes must obey three constraints: they can't worsen inequality, they must dramatically improve work incentives and, in conjunction with other fiscal reforms, they must raise enough revenue to ensure Uncle Sam can pay all his bills over time, leaving no fiscal gap for our descendants to cover.

## The Business Cash Flow Tax or VAT

The business cash flow tax rate would be 20 percent. It will collect far more revenue than the corporate income tax it replaces. The tax will be very easy for any business to calculate. A company simply has to pay 20 percent of its annual total cash receipts,<sup>73</sup> less its total purchases of goods and services, including investments.

Rather than taxing profits from new investment at 35 percent, the business cash flow tax effectively taxes profits at zero percent. The reason is that while the additional sales revenue generated from investing will be taxed at 20 percent, the initial investment is deductible at the same 20 percent rate. The present value of the initial deduction exactly offsets the present value of the future taxes, leaving the effective tax on the investment at zero. This well-known means of making America the most tax-advantageous place to invest in the developed world (called immediate expensing), is part of most

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<sup>73</sup> More precisely, these receipts would be from sales to domestic customers. Exports would be excluded based on the World Trade Organization's decision to permit destination-based VATs, i.e., not to declare the exclusion of exports from the VAT tax base as an illegal trade subsidy.

of the above-referenced tax reforms.

Republicans have long been opposed to the business cash flow tax because they didn't want to add yet another tax system on top of those we now have. That's clearly not part of my tax plan, which eliminates three federal taxes that are, when examined closely, a true disgrace to all Americans – whether Democrat, Republican or, like me, aligned with neither party.

Interestingly, Republican opposition to the VAT appears to have lessened considerably after Senator Cruz included the VAT as part of his tax reform proposal. Just to be clear, the fact that Senator Cruz is calling for a VAT, which is used throughout the developed world, and that I'm calling for a VAT, albeit at a higher rate, does not make me a fan of the senator, let alone of his other policy positions. It does make me someone who can listen and learn from a Senator Cruz or a Senator Sanders with open ears.

## **Subjecting All Wages and Self-Employment Income to the FICA Tax**

Removing the ceiling on payroll taxes makes high earners do what everyone else does, namely pay payroll taxes on all their earnings. This increase in progressivity will not, however, be offset by higher Social Security benefits. As described in chapter 9, I'm proposing a modern, personalized version of Social Security, whose benefits are independent of future Social Security payroll tax contributions.

Future Social Security payroll tax contributions will be used, over time, to pay off the Social Security benefits we now owe. But, under my plan, no one will accrue additional benefits under the old system. Instead, they will get everything they are

due under the old system as they proceed through retirement. But they will also receive benefits under the new system, which I call the Personal Security System. This is one of my bipartisan purple plans that I've worked out in recent years. Purple is, of course, the combination of red and blue.

Chapter 9 has the details, but let me hasten to say that my Purple Social Security plan, while it features personal accounts, government matching contributions, contribution sharing (between spouses) and collective investment in the market, involves no involvement whatsoever by Wall Street and, therefore, provides no income whatsoever to Wall Street. Everything is done by a computer, and the government guarantees that the value of our Personal Security Accounts (PSAs) never falls below the sum of our contributions, adjusted for inflation.

Some further points about the Social Security payroll tax. Going forward, everyone, including those in state and local government jobs who have been exempt from Social Security taxation, will have to pay the Social Security FICA tax. On the other hand, I would ask Congress to limit the Windfall Elimination and Government Pension Offset provisions to reflect only the pre-reform years of uncovered employment. Second, all income from LLC and subchapter S companies will be subject to FICA taxation. Third, the current market value of all compensation in the form of stock and employee fringe benefits will be subject to FICA taxation. Finally, when exercised, the value of stock and stock options realized in excess of their market value at issuance will be subject to FICA taxation.

## The Progressive Personal Consumption Tax

The progressive personal consumption tax would exempt the first \$100,000 in consumption. Consequently, the great majority of households, roughly 80 percent, won't need to worry about this tax. It would also exempt consumption paid out of labor earnings. Its rate would start at 5 percent and rise to 30 percent. All consumption, including the imputed consumption services, called imputed rent, derived from ownership of personal wealth (e.g., homes, yachts, planes, jewelry and art, whether those durables are located in the U.S. or abroad) above \$5 million, would be included in the tax base.

This tax would also be very easy to calculate. Households subject to the tax would simply add up all their inflow of funds (receipts), including borrowing and imputed rent but excluding labor earnings, over the course of the year and subtract out funds they invest. The difference is their consumption apart from imputed rent, which would be added in. Investment would be defined to include investment in homes, yachts, etc., because those durables could be rented out.<sup>74</sup>

Investment would also be defined to include expenditures on higher education for oneself or one's children, including tuition, special fees and room and board. And it would include charitable contributions, since I want to retain incentives for the rich to continue to make their enormous contribution to our country in funding private charities, including those sponsoring the arts, which are sorely underfunded in our country.

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<sup>74</sup> But if the rich live in their homes, yachts, etc., they are effectively renting them out to themselves. In this case, they will need to include the amount of imputed rent to their taxable receipts. For example, if the rich buy a yacht and lease it, but use it part of the year, whether or not they call it personal or business use, they will need to impute rent of their use of the yacht for that part of the year and pay the consumption tax on that amount.

Warren Buffett is an example of an extremely rich person whose pockets are lined with gold. But his heart appears to be filled with gold as well. The same can be said of Bill and Melinda Gates and many other super-rich Americans who care intensely about others, particularly the poor. In Buffett's case, he is contributing his wealth to the Gates Foundation, which is dedicated to eliminating global poverty and improving education at home and abroad. I'm not a religious person, but this is God's work by anyone's definition and shouldn't be penalized by the tax system.

## **Ensuring the Rich Meet Their Tax Obligations**

The personal consumption tax as well as the inheritance tax is the only way we will get all of the rich to pay their fair share of taxes. Under the current tax system, a billionaire (and we have close to 2,000 of them) can, if he or she so chooses, spend his or her entire life paying little or no personal income taxes. Let me review the simple method. They can and routinely do simply borrow money, pledging their assets as collateral, to pay for their spending. Consequently, they don't sell their assets, which means they don't pay capital gains taxes. Instead, they leave their assets to appreciate in value, which will happen on average. When they die, they can convey these assets to their heirs with no capital gains tax levied on the increase in value (appreciation).<sup>75</sup> Furthermore, in conveying their estates to their heirs, they use irrevocable trusts and other means to avoid the estate and gift tax. Meanwhile, the rich are consuming whatever they want and making the rest of us pay for their

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<sup>75</sup> This is called "step up in basis."

public services, including the protection afforded by our military, that they enjoy.<sup>76</sup>

This problem goes away under my tax plan. The rich pay taxes each year on every dollar they consume in excess of \$5 million. Supporters of Senator Sanders who are particularly concerned, as am I, about inequality, may think that a top rate of 30 percent on the consumption by the rich is too low. But this ignores my 20 percent business cash flow tax or VAT. The VAT is also a tax on consumption, just collected in an indirect manner.

Here's why. When all of the business tax returns are combined, the VAT ends up taxing all of national income less investment, which equals national income less savings (since savings equals investment), and income minus savings is consumption. The VAT excludes imputed rent on homes and other durables, which constitute about 25 percent of total U.S. consumption. Hence, and I apologize for all the wonky numbers, a 20 percent VAT is effectively a 15 percent consumption tax. Consequently, the richest people in our country will pay 30 percent plus 15 percent on their spending, apart from charitable contributions and expenditures on higher education, for a combined 45 percent tax rate.<sup>77</sup>

What if the rich continue to borrow to consume? No problem. That borrowing is taxable, as are all inflows of cash

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<sup>76</sup> As mentioned, our cat's name is Riley and he's got a very cushy existence – a veritable fat cat but without a weight problem.

<sup>77</sup> One critically important point: Given that exports aren't included in revenues and imports are subject to the value added tax, a destination-based VAT, which is what I'm proposing, taxes consumption done within the U.S. It does not tax the consumption of the rich to the extent they consume abroad. My plan would rectify this by having the rich pay a 20 percent surtax on consumption done abroad apart from imputed rent implicitly received abroad, which is already taxed under the progressive consumption tax.

that are not invested. What if the rich invest all their money, live on the streets and don't spend a penny? That's a great thing for the economy and for workers in particular. It means we all get to work with their assets. But won't that worsen the concentration of wealth and its associated political? This is where the inheritance tax comes in.

## Taxing Inheritance

As we all know, the rich, particularly the super rich, are incredibly adept at transferring their wealth to their offspring without paying any or much in taxes. But my proposed inheritance tax will tax all cumulative net inheritances received in excess of \$5 million at a 20 percent rate.<sup>78</sup> This threshold will be adjusted for inflation. Cumulative inheritances will be calculated as the sum of all past inheritances and gifts (valued in today's dollars) received in excess of a \$20,000 annual exempt amount, which would be indexed to inflation.<sup>79</sup> Before the annual net excess inheritances are added together to see if the individual has exceeded his or her lifetime exemption, each year's excess (of the \$20,000) inheritance will be measured in current year dollars to keep the inheritance tax neutral to inflation.<sup>80</sup>

In addition, to the extent the children of the rich don't invest their inheritances, i.e., to the extent they spend them on their

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<sup>78</sup> The inheritance tax base would include distributions of both principal and income from trust accounts as well as borrowing from those accounts or any intergenerational loans and use of homes owned by trusts.

<sup>79</sup> This threshold would be \$50,000 in the case of disabled children.

<sup>80</sup> There is no bias under this proposed inheritance tax to transfer resources later in life to defer the inheritance tax. The reason is that my tax reform entails no capital income taxation whatsoever.

often-lavish lifestyles, they will pay progressive consumption taxes on those inheritances.

Taxing inheritance is far more sensible than taxing bequests. A billionaire who dies and leaves her fortune to every American in the country in equal measure is mitigating inequality. But a billionaire who leaves all her wealth to a single person who is already very rich is exacerbating inequality. The progressive nature of my proposed inheritance tax (zero taxation on the first \$5 million of inheritances and 20 percent taxation thereafter) provides strong incentives to share the wealth.

## Taxing Carbon

The evidence for global warming and climate change is overwhelming. Here are some of the distressing facts provided by NASA, the National Academy of Sciences, the Royal Academy and the scientific journal *Nature*.

Carbon dioxide in the air is at its highest level in 650,000 years. Humans have raised CO<sub>2</sub> levels by 40 percent since the industrial revolution, with more than half of this increase occurring in the last four decades. Since 1900, the planet's average temperature has risen by 1.4° Fahrenheit. Nine of the 10 warmest years on record have occurred since 2000. In 2012, the Arctic summer sea ice shrank to its lowest level on record. Greenland is experiencing accelerating ice loss. The melting of the West Antarctica ice sheet in conjunction with other ice melting could raise the sea level by six feet by the end of this century.<sup>81</sup> This would largely put New York, Boston, Miami,

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<sup>81</sup> See <http://climate.nasa.gov/>;  
[https://royalsociety.org/~media/Royal\\_Society\\_Content/policy/projects/climate-evidence-](https://royalsociety.org/~media/Royal_Society_Content/policy/projects/climate-evidence-)

New Orleans and other major U.S. cities under water.

In the 2015 Paris Accord, 195 nations affirmed that the time for debate on climate change is over and that immediate action is needed. Those who claim that this is manufactured hysteria by politically correct scientists need to ask themselves the following questions.

“What if I am wrong? What if the climate is indeed changing? What if we actually do have only a very short window to reverse global warming before the planet passes a grave tipping point?” The melting of the West Antarctica ice sheet is an example of such a tipping point. Once the ice sheet melts, there is no refreezing it.

These “What If?” questions do not allow a response of “Sorry, I was wrong.” We cannot simply sit back and leave ourselves, but primarily our children, at severe risk. We cannot play dice with their physical lives anymore than we can play dice with their economic lives.

Our country is second only to China in CO<sub>2</sub> emissions. Historically, we have done the most to raise the planet’s temperature. It is our responsibility to do the most to lower it. Development of hydropower, wind, solar, wave, hydrogen, biofuels and geothermal clean-energy sources is imperative.<sup>82</sup>

A carbon tax is the straightforward means by which we can

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causes/climate-change-evidence-causes.pdf;

[http://www.nature.com/articles/nature17145.epdf?referrer\\_access\\_token=pav7d40qwLb30zhD0WS9wNRgN0jAjWeI9jnR3ZoTv0M-pvJMg7VLINRa2mnTNsvXfjbAFNU4M9sSVFBNmnefzi\\_Tg5VLId6wPZa0y-lyfG-vEm6wcKjYMNzNyVQpVGpxNuBQy2dtzpSq0NcRjB0jdNugzKU2KRX4P5kAvVABO4bobVehZVtXXvH\\_xPBV\\_Pb9hyLrFbV5Vi-6oiqRH2h16CJ8PGCLd5PP2giy4I38IeOtvP-ln\\_aTqqubaDcDEIlmN&tracking\\_referrer=www.nytimes.com](http://www.nature.com/articles/nature17145.epdf?referrer_access_token=pav7d40qwLb30zhD0WS9wNRgN0jAjWeI9jnR3ZoTv0M-pvJMg7VLINRa2mnTNsvXfjbAFNU4M9sSVFBNmnefzi_Tg5VLId6wPZa0y-lyfG-vEm6wcKjYMNzNyVQpVGpxNuBQy2dtzpSq0NcRjB0jdNugzKU2KRX4P5kAvVABO4bobVehZVtXXvH_xPBV_Pb9hyLrFbV5Vi-6oiqRH2h16CJ8PGCLd5PP2giy4I38IeOtvP-ln_aTqqubaDcDEIlmN&tracking_referrer=www.nytimes.com)

<sup>82</sup> This list intentionally excludes nuclear energy, which, given the centuries-long disasters at Chernobyl and Fukushima, is far too risky an option for our children if not for ourselves.

control emissions and coordinate federal and state emissions policies. But it's important to understand the dynamics of carbon taxation. If we set a low tax rate now and a higher one in the future, producers of dirty energy will produce more, not less, in the short run. The reason is simple. They'll seek to profit from their stocks of oil, natural gas and coal when they can make the most money, net of tax.

In this regard, the 2015 Paris Accord may actually be backfiring. The Accord asks its 195 national signatories to specify their contributions to reducing CO<sub>2</sub> emissions and to raise those contributions over time. But there is no legal enforcement of these pledges and no hard deadlines. The one sure thing the Accord does is to put dirty-energy producers on notice that their days are numbered. Unfortunately, this greatly incentivizes them to accelerate their extraction of fossil fuels and, thereby, increase the planet's temperature. The current extremely low price of oil is striking testimony to the "use it or lose it" calculus underlying today's oil production.<sup>83</sup>

My proposed carbon tax would be set at \$80 per metric ton. This will raise the price of gasoline by roughly 80 cents per gallon. This is three times the initial tax rate considered by the JCT and the CBO in their 2014 study of carbon taxation.<sup>84</sup> I'd keep this *absolute* tax (the \$80) fixed, so that the carbon tax *rate* would fall over time due to inflation as well as projected fossil fuel price rises. This would give fossil fuel producers what the planet needs: a strong incentive to delay their

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<sup>83</sup> There are other major factors at play here. ISIS is threatening to overrun all of the Gulf States. This simply reinforces "use it or lose it." And the low prevailing price is producing greater production by cash-strapped countries like Venezuela and Russia to maintain state revenues.

<sup>84</sup> [https://www.cbo.gov/sites/default/files/113th-congress-2013-2014/presentation/49830-revenueneutralcarbontax\\_0.pdf](https://www.cbo.gov/sites/default/files/113th-congress-2013-2014/presentation/49830-revenueneutralcarbontax_0.pdf)

production and sale of dirty energy to the future when the tax rate is lower and the climate will be less at risk. A low, steady burn of fossil fuels is safer for the planet than a high, rapid burn.

The JCT and CBO are staffed with many excellent economists. But both are agencies of Congress. When they analyze policies, they are strongly influenced by what they consider politically feasible as opposed to what's economically needed. They do so because their bosses – members of Congress – are politicians, and their job is to keep their bosses happy. In their 2014 study, the two agencies considered a relatively low initial tax, but one that rises over time by 2 percent in real terms (at a rate that is 2 percentage points higher than the rate of inflation). This corresponds to what the Paris Accord promises: higher, not lower, emission penalties over time.

Unfortunately, this is the exact opposite of what the economics of extractable resources, dating back to seminal work in 1931 by Harold Hotelling, recommends.<sup>85</sup> Hotelling's classic study, which isn't even referenced by the JCT and CBO, tells us that a rising rate of carbon taxation will accelerate emissions, that a constant rate of carbon taxation will have no impact on emissions and that a declining rate of carbon taxation will slow emissions.<sup>86</sup>

It may be counterintuitive to tell fossil fuel producers that

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<sup>85</sup> I refer here to Hotelling's Rule developed in his seminal 1931 paper published in *The Journal of Political Economy*. See

[https://www.jstor.org/stable/1822328?seq=1#page\\_scan\\_tab\\_contents](https://www.jstor.org/stable/1822328?seq=1#page_scan_tab_contents). Thanks to technological change and other factors, Hotelling's rule that fossil fuel prices would rise through time at the interest rate hasn't held up. But his basic insights can't be ignored when it comes to carbon taxation.

<sup>86</sup> Rising extraction costs changes the story somewhat.

they will be treated badly now but far better in the future. But that's precisely what's needed to keep them from focusing on "use it or lose it."

Two final points. With my carbon tax in place, I would immediately approve the Keystone pipeline project. Also, I would seek approval by the World Trade Organization for countries to impose tariffs on imports based on the carbon content of those imports coming from countries that did not act immediately, either through a high (but falling) carbon tax or similar policies that incentivize dirty energy producers to delay their production.

## **Replacing Tax Credits With a \$2,000 (Inflation-Indexed) Payment per Person**

The Earned Income Tax Credit (EITC) and the Child Tax Credit are our most important poverty-alleviation policies. Unfortunately, both are clawed back through the tax system as workers earn more money. In the case of the EITC's claw back, earning an extra dollar can cost more than 20 cents in lost EITC benefits. This is part of the aforementioned poverty trap.

Let me be clear about this trap. When the poor work they stand not only to pay FICA taxes. They also stand to lose the Earned Income Tax Credit, their food stamps, their Medicaid benefits or their Obamacare subsidies. In some cases, the marginal rates of taxation, when combined, put the poor in tax brackets above 100 percent, meaning they lose money from working.

Under my tax reform everyone would face the same 30 percent tax rate on their labor earnings. Part of the means of achieving this is to eliminate the EITC and Child Tax Credit

and simply provide a lump-sum payment to each American, regardless of his age or income. This “negative income tax” approach to providing basic support has been endorsed over the years by both conservative and liberal economists, including two now deceased Nobel Laureates – the University of Chicago’s Milton Friedman and Yale University’s James Tobin.

The other two elements needed to eliminate the poverty tax are replacing food stamps with direct food distribution and changing the healthcare system so a) everyone has basic health insurance coverage, b) the provision of basic health insurance doesn’t bankrupt our country, and c) the provision of basic health insurance doesn’t dramatically undermine people’s work decisions, which is now the case. Let me tell you now about direct food distribution and leave healthcare reform to chapter 8.

## **Replacing Food Stamps With Direct Food Distribution**

No one in America should go hungry. But providing food assistance in a manner that reduces work incentives by over 20 cents on the dollar earned is no answer. I propose replacing food stamps with Food Distribution Assistance. This would be provided to children living in low-income neighborhoods at their schools in the form of three free meals a day. Adults, any adult, could receive basic food for free at food distribution centers, which would also be located in low-income neighborhoods. Food would also be delivered on request to those who cannot travel to the distribution centers.

## **Summing Up**

Under my tax reform, the marginal tax rate on earnings is 30 percent for everyone. It consists of the 15 percent FICA tax plus the 15 percent effective tax on working associated with the VAT. (Yes, my VAT tax rate is 20 percent, but the VAT covers only about 75 percent of total income since it excludes imputed rent on homes and other durables.) Under my plan, no one will lose any federal benefits, be they cash assistance, food assistance or health insurance, when they work.

My tax plan is designed to increase federal revenues by 5 percent of GDP, dramatically increase the incentive of companies to hire and invest in America, ensure the rich actually pay their fair share of taxes, limit the perpetuation of wealth inequality from generation to generation, provide everyone with the same incentive to work and eliminate the poverty trap, which arises under our tax and benefit system, leaving millions of low-income households with little or no incentive to work.

## 8. Fixing Healthcare

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We are now spending 5.2 percent of GDP on Medicare, Medicare, CHIP (Child Health Insurance Program) and Obamacare. This figure is projected (by the Congressional Budget Office) to rise to 9.1 percent by mid-century and to 13.3 percent of GDP by the end of the century. To put these figures in perspective, total federal revenues are 17.5 percent of GDP and projected to reach 18.1 percent of GDP in 2025 and remain at that level through 2100. Consequently, we are on a long-run path to have 4.8 percent of GDP (18.1 percent minus 13.3 percent) available, in terms of tax revenue, for all other spending. But all that other spending is projected to cost 16.4 percent of GDP.

Our \$199 trillion fiscal gap is in good measure due to the projected growth in federal healthcare spending relative to GDP. Indeed, if we could keep federal spending on healthcare at its current share of GDP, the fiscal gap would fall by three-fifths!

Hence, unless we are prepared to impose dramatically higher taxes on ourselves and our children, we need to get and keep control of federal healthcare spending. But we need to do so in a way that satisfies the following principals.

First, basic health insurance coverage should be provided to all Americans free of charge. Second, all Americans should be free to purchase supplemental coverage from their basic health insurance provider. Third, basic health insurance should be

privately provided with people free to choose their doctors and hospitals among those included in their insurer's network. Fourth, federal healthcare costs must be capped and affordable on a long-term basis. Fifth, the basic health insurance system should provide incentives to prevent overuse of healthcare services. It should also incentivize healthy living. And sixth, medical malpractice reform is needed to limit the costs of defensive medicine.

My healthcare plan satisfies all these conditions. I call it the Purple Healthcare Plan, since, again, both Republicans and Democrats should find it highly appealing. The plan eliminates Medicare, Medicaid, Obamacare and tax subsidies to employer-provided healthcare. As you can see at [www.thehealthcareplan.org](http://www.thehealthcareplan.org), the plan has been vetted and endorsed by a long list of top economists, included five Nobel Laureates as well as a large number of non-economists from all walks of life.

Here are the plan's 11 basic features:

*First, all Americans receive a voucher each year to purchase a uniform basic health insurance plan from the private insurer provider of their choice. The voucher pays in full for the policy, and the federal government pays the insurance provider the full amount of the voucher.*

*Second, the private insurer chosen is responsible, over the course of the year, for all healthcare costs that are covered under the basic plan. The one exception is the co-pay and deductible specified in the basic plan.*

*Third, Americans can switch insurance providers of the basic plan annually.*

*Fourth, all health insurers need to offer the uniform basic*

*plan in exchange for the voucher as well as offer supplemental coverage at a uniform price to anyone who takes basic plan coverage (there is no denial of coverage).*

*Fifth, the vouchers will vary in size, but they will all purchase exactly the same basic health insurance policy with exactly the same set of coverages. Those with higher expected healthcare costs will receive larger vouchers. The purpose of making the vouchers individual-specific is not to provide difference health insurance to different people. The purpose is to keep insurance providers from having an incentive to subtly encourage the sick to go elsewhere. In other words, larger vouchers will directly compensate the insurer for insuring Americans with higher expected medical costs and make insurers just as eager to enroll the sick as the healthy.*

*Sixth, the size of each person's voucher will be determined based on electronic medical records that document the person's objective health indicators. The voucher will incorporate a reasonable profit margin for health insurers.*

*Seventh, each year a panel of doctors will set the coverages of the uniform basic plan such that the sum total of the vouchers equals, but never exceeds, 7 percent of GDP. The figure 7 percent of GDP reflects the 2015 ratio to GDP of the costs of Medicare, Medicaid, CHIP, Obamacare and the tax subsidy to employer-based healthcare.<sup>87</sup>*

*Eight, insurance companies will contract with doctors and hospitals to provide the basic plan to all their clients.*

*Ninth, each year every American will receive a new voucher*

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<sup>87</sup> <http://kff.org/private-insurance/issue-brief/tax-subsidies-for-private-health-insurance/>; [https://www.cbo.gov/sites/default/files/113th-congress-2013-2014/reports/49763-VA\\_Healthcare\\_Costs.pdf](https://www.cbo.gov/sites/default/files/113th-congress-2013-2014/reports/49763-VA_Healthcare_Costs.pdf); [https://www.cbo.gov/about/products/budget\\_economic\\_data#1](https://www.cbo.gov/about/products/budget_economic_data#1)

*and be free to choose the doctors and hospitals included in their chosen insurance company's network.*

*Tenth, health providers can offer participants incentives to improve their health.*

*Eleventh, Congress will pass legislation limiting malpractice claims in order to mitigate the practice of defensive medicine.*

Here's the beauty of this plan. It turns basic health insurance into a commodity, like wheat. Since all insurers will compete to provide the same basic insurance plan, there will be intense competition to provide the best quality of care and in order to re-sign the participant at the end of the year. This will squeeze out the excessive costs being paid insurance companies for running their businesses. It will also limit what top insurance company managers can afford to pay themselves.

Even more important, the plan provides basic health insurance to everyone in the country without driving the country broke. In so doing, it makes, as indicated, a massive contribution – 60 percent – to reducing the fiscal gap.

Is the 7 percent of GDP cap realistic given that the population is aging and that medical costs rise with age? I have four responses. First, roughly 16 percent of today's U.S. population is now 65 and older. By mid-century, that figure will be 22 percent. Hence, the U.S. will be older, but not that much older.

Second, the intense competition of insurance providers to supply the basis plan should drive quality up and prices down. If the government says that services of type X needs to be used for situation Y, insurers will seek the least expensive means to provide these services without sacrificing quality. Sacrificing

quality will limit the number of repeat customers and, thus, their profits.

Third, our economy should begin to grow at a robust rate thanks to the combinations of reforms I've outlined. Seven percent of a larger economy means more healthcare can be provided in absolute terms. Stated differently, I expect the economy to grow more rapidly than healthcare costs.

Fourth, if the public feels we should spend more on the basic plan, I would propose raising the 7 percent figure, provided we simultaneously raise taxes or reduce other spending to keep the fiscal gap at zero and that any changes to taxes and spending are not differentially targeted at the young and middle-aged.

Finally, the plan is progressive. Although everyone gets the same basic health insurance plan, the value of this plan is much greater to those with pre-existing conditions. Since the poor are less healthy on average than the rich, the poor will receive, on average, larger vouchers than the rich. For many of the poor, the size of their vouchers will be dramatically higher.

This may sound like single-payer healthcare. It isn't. It's a single-insurer healthcare system with a totally private provision of healthcare services. Yes, the federal government uses tax dollars to pay for everyone's basic health insurance policy, but unlike, say, the British National Health Service, the government does not own the hospitals, hire the doctors, buy the drugs, etc.

In short, the Purple Health Insurance Plan is a much more efficient and affordable version of our current healthcare system in which the federal government pays, either directly or indirectly, for one of every two dollars of healthcare

expenditures.

One final benefit from the Purple Health Plan: it will provide our veterans the same choice of healthcare insurers and their associated healthcare providers as everyone else in the country.

## 9. Fixing Social Security

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Social Security is the financial backbone of most Americans' retirements. For 20 percent of retirees, it's their sole means of support. For 50 percent, it's their major source of income. And for 70 percent, it's either their sole, major or second-most important income source. It's no wonder that the system has so much political support. The elderly are a major voting block and are rightfully concerned that no one touch their Social Security.

Unfortunately, the system is in grave financial trouble that can no longer be ignored. It also puts large numbers of workers in their early 60s into a 50 percent perceived higher tax bracket, giving them every incentive to stop working when the exact opposite is what they really need to do.<sup>88</sup> As if these two concerns weren't bad enough, the system is unfathomably complex, thanks to 2,728 basic rules in its handbook and hundreds of thousands of rules about these rules in its program operating manual system.

This complexity makes it impossible to figure out which of the system's nine benefits we can and should collect and when to do so. Only a highly sophisticated computer program can provide the right directions. But since most people aren't using software, most are taking the wrong benefits at the wrong time, losing benefits because they weren't aware they were available

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<sup>88</sup> [http://www.nytimes.com/2015/08/15/opinion/let-older-americans-keep-working.html?\\_r=1](http://www.nytimes.com/2015/08/15/opinion/let-older-americans-keep-working.html?_r=1)

or both. You can have an IQ of 200, the best education money can buy and still lose tens to hundreds of thousands of dollars in lifetime Social Security benefits because you didn't know some critical Social Security gotcha that its maniacal architects concocted.

As I mentioned, my small company makes personal financial planning software, including a program to help people figure out their best Social Security collection strategy. In order to help our engineers program our software, I had to become very well versed in the system's provisions. This took years of questioning current and former Social Security technical experts.

It was a daunting task as Social Security has its own internal language (e.g., the word "entitled" has an entirely different meaning from the word "eligible") and its rules have endless exceptions to the exceptions. To help keep things straight in my brain I decided, one day, to write down the mathematic formula determining benefits for a spouse at a given age.

## Social Security's Benefit Maze

It took most of a week to get it entirely straight. When I finally got the formula right, and stared at it for a while, I realized that it was one of the most complex mathematical expressions I'd ever encountered. The formula, if you will forgive a few lines of geek talk, encompasses 10 mathematical functions, some of which are continuous (smooth), some discontinuous, some discrete (taking on only two values) and some maximum functions (select the larger of two or more numbers) and other minimum functions (select the smaller of two or more numbers). Indeed, one function is a maximum

function defined over a minimum function.

In contemplating this monster formula, I also realized that I was looking at the solution to a horribly cruel puzzle that bureaucrats had designed as some kind of intellectual sporting event with complete disregard as to how it would affect ordinary people trying to collect what they'd paid year in and year out in FICA taxes. I also realized that the puzzle provided a tremendous and durable ego boast to its creators. They had produced a special Rubik's Cube that only they and a few others could fully solve. Consequently, the vast number of Social Security's 40,000 staff would have to rely on them for "technical assistance" – to the extent they were available to help. Otherwise, the staff would do its best on its own, and if the public lost a boatload of benefits as a result, so be it.

I've had many a lesson about how Social Security's staff treats the public. To be brief, it's a horror show. While the vast majority of its employees are well meaning, they aren't sufficiently well trained to provide correct answers more than half the time. However, because they are understaffed and constantly harassed, they adopt an attitude of complete certainty in providing answers even when they know enough to know their answer could be completely wrong.

The result of all the complexity and, frankly, bureaucratic incompetence is that Social Security benefits are largely a lottery. Countless numbers of people have lost huge sums of money because either a) they didn't know they were eligible for certain benefits, b) they took their benefits early when they should have waited to collect far higher benefits, c) they didn't understand that their Social Security decisions could affect their spouse's benefits and vice versa, d) they got divorced too early, e) they got married when they shouldn't have and, yes,

the list goes on.

## **Social Security Is Broke Today, Not Down the Road!**

Even were the system in decent financial shape, the case for fixing it from the ground up would be overwhelming. But the system is in horrific financial shape. Its fiscal gap – the present value of its projected future benefit commitments net of both its projected future taxes and the value of its trust fund – is \$26 trillion.<sup>89</sup> This is clearly not the main source of the government's overall \$199 trillion fiscal gap, but it's an important component.

Unfortunately, since the rest of the government's fiscal affairs are in worse shape, Social Security can't look for help from other parts of the overall federal budget. The entire fiscal system is 53 percent underfunded. The \$26 trillion of Social Security red ink is 31 percent of the present value of the system's projected taxes. Hence, Social Security is 31 percent underfunded.

Saying that Social Security is 31 percent underfinanced is another why of saying that Social Security's 12.4 percent FICA payroll tax rate needs to rise, immediately and permanently, by almost one third to permit the system to pay all its promised benefits over time. That translates into 3.8 cents more in FICA taxes on every dollar earned up to Social Security's taxable earnings ceiling, now \$118,500.

## **Social Security's Zero-Sum Generational Game**

Telling the vast majority of American workers they need to

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<sup>89</sup> [https://www.ssa.gov/oact/tr/2015/VI\\_F\\_infinite.html#1000194](https://www.ssa.gov/oact/tr/2015/VI_F_infinite.html#1000194)

fork over another 4 percent of their pay for the rest of their working lives and receive absolutely nothing in return is not something our politicians have been eager to do.

The only candidate to make much of an issue of Social Security's finances this campaign season was Governor Christie. Unfortunately, even he never conveyed that Social Security is 31 percent underfinanced. Had he done so, the public might have drawn a comparison with Detroit's pension system, which was roughly 20 percent underfunded when it helped force the city to declare bankruptcy.

Senator Sanders has been the most vocal of all the candidates when it comes to Social Security. His campaign website describes it as "the most successful government program in our nation's history." The Senator correctly points out that many of those living solely on Social Security are living in dire poverty because their benefits are so low. He proposes expanding benefits by \$65 per month. On an annual basis, this is, \$780. That, by the way, is less than the \$2,000 annual payment per person I'm proposing.

What the Senator isn't worried about is the system's existing finances. Perhaps he hasn't examined Table VIF1 in the 2015 Social Security Trustees Report. This table reports the system's \$26 trillion unfunded liability. But the table is relegated to the far end of the report's appendix – so that no one will see it. No surprise there. The decision to hide this table was made by the system's "trustees," all of whom are political appointees.

Like our overall fiscal gap, resolving Social Security's gap is a zero-sum game, generationally speaking. If we don't raise Social Security's employer plus employee payroll tax by 31 percent starting today, we'll need to raise it by an even larger

percentage when someone finally takes the problem seriously. This, of course, means our children and grandchildren will face an even higher payroll tax rate than 16.2 percent (12.4 percent plus 3.8 percent). It also means that many of us will retire before the payroll tax rate is raised and, thereby, avoid the problem entirely.

On his website, Senator Sanders says that anyone, particularly Republicans, who claim Social Security is broke are “dead wrong.”<sup>90</sup> The senator supports his view that the system is solvent by pointing to its \$2.8 trillion trust fund and noting that the system can pay benefits in full for the next 19 years, and three quarters of scheduled benefits thereafter.

With all due respect to Senator Sanders, he’s miles off base about Social Security’s finances. The system’s \$26 trillion shortfall, calculated by the system’s own actuaries, properly assumes that the \$2.8 trillion trust fund is an asset of the system. In other words, even taking into account the \$2.8 trillion worth of assets held by Social Security and also taking into account all the future taxes it will collect, the system is still \$26 trillion in the red. That’s because the projected future benefits, valued as of today, exceed the present value of projected future taxes (plus the trust fund) by \$26 trillion.

Furthermore, telling us that the system is OK for the next 19 years and then would be short one quarter of what’s need to meet its obligations is hardly reassuring to today’s and tomorrow’s Social Security beneficiaries. They are all counting on receiving 100 percent of their benefits for the rest of their lives, not 100 percent for 19 years and 75 percent thereafter.

Were Senator Sanders writing in this space, he’d no doubt

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<sup>90</sup> <https://berniesanders.com/issues/strengthen-and-expand-social-security>

say that the \$26 trillion shortfall takes into account all future benefits (and taxes) and not just the system's finances over Social Security's traditional 75-year forecasting horizon. He'd also say that the 75-year fiscal gap is far smaller. All true. But today's newborns will be 75 in 75 years and expecting to collect benefits for the rest of their lives – benefits they paid for. Hence, there is no economic logic to truncating the financial analysis. Again, take it from the Nobel Laureates and other economists who endorsed infinite horizon fiscal gap analysis at [www.theinformact.org](http://www.theinformact.org) as the only valid way to assess fiscal sustainability, be it for a country as a whole or a given fiscal system.<sup>91</sup>

## The Purple Social Security Plan

It's time to fix Social Security from the ground up without sacrificing its key objectives. If we are going to ask younger generations to pay most, if not all, of the current system's unfunded liability, let's give them a modern Social Security system that is simple, transparent, fair, efficient and fully-funded. In conjunction with my tax and healthcare reforms, my Purple Social Security Plan eliminates our fiscal gap.

My plan deals with the retirement portion of Social Security. Here are its 11 provisions:

1. Grandfather in current Social Security beneficiaries. That is, pay them the Social Security benefits they've already earned over time. Finance these payments from Social Security FICA tax proceeds, which will be expanded under my tax plan. Over

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<sup>91</sup> Forming the present value of revenues and expenditures projected out to infinity may seem impossible, but there is a very easy way to do so using high school algebra.

time, these revenues will be added to general revenues as the accrued liabilities of the existing system decline relative to the size of the economy.

2. Freeze the current Social Security system by filling zeros in workers' earnings records for years after the reform begins. This means just consider the earnings records of workers during the year before the reform.
3. Require all workers under 60 to contribute 10 percent of their wages to Personal Security Accounts (PSAs). This 10 percent compulsory personal saving contribution is in addition to the 12.4 percent FICA tax.
4. Allocate each worker's contribution 50-50 to his/her own PSA and to his/her spouse/legal partner's PSA.
5. Government contributes to the PSAs of low-income workers, the unemployed and the disabled.
6. All PSA balances are invested in a global market-weighted index fund of stocks, government bonds, corporate bonds and real estate trusts.
7. From ages 61 to 70, all PSA balances for each cohort (defined by year of birth) are gradually sold to purchase TIPS (Treasury Inflation Protected Securities).<sup>92</sup>
8. All investing, sales, purchase of TIPs and provision of benefits is done by a single government computer at zero cost. Wall Street plays no role and collects no

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<sup>92</sup> The Treasury would issue TIPS of annual durations up to 50 years. The portfolio of TIPS purchased with each sale of a cohort's PSA balances would be laddered to pay out a constant real stream of income per expected surviving cohort member.

fees.

9. The government guarantees that PSA balances when they are sold and converted to TIPS equal at least what was contributed adjusted for inflation. I.e., the government guarantees PSA participants against real losses.
10. PSA participants who die prior to age 70 bequeath unconverted balances to their heirs.
11. Starting at 62, each cohort-specific pool of TIPs is used to make payments to surviving PSA participants in proportion to their share of PSA assets used to purchase that pool of TIPS.

## Summary

My plan's system of Personal Security Accounts, progressive government contribution-matching, contribution sharing among spouses/legal partners, uniform investment returns, a government guarantee of a zero real return minimum and collective cohort-specific annuitization represent a modern Social Security system. It is, I believe, what we would choose to establish if we could start Social Security from scratch today. But we can't start Social Security from scratch. We can simply freeze the existing system, pay off all benefits owed as they come due and run the PSA system in parallel.

How will this reform help reduce the country's fiscal gap? First, payroll tax revenues will continue over time even though the old Social Security system is being phased out. Indeed, since I eliminate the payroll tax ceiling as part of my tax

reform, payroll tax revenues will be substantially higher. Second, no one will accrue additional benefits under the old system. Hence, the government will only need to pay Social Security's accrued benefit liabilities, not its projected benefit liabilities. Its accrued liabilities are, I understand from speaking to Social Security actuaries, roughly \$60 trillion less than its projected liabilities.

Some might view the 10 percent compulsory contribution to PSA accounts as a disguised tax. That's not my view. The PSA accounts are the private property of each account owner. Yes, the government will be forcing us to save 10 percent of our wages. But it won't be handing that money to others. It will be investing our money in a fully diversified global portfolio, plus providing a guarantee against experiencing any losses on a cumulative basis. That's an investment anyone would want. And it will pay out our money to us in the form of real annuity payments that depend on our cohort's realized mortality.

Furthermore, we should all be saving at least 10 percent of our pay for our retirements anyway. We Americans are very poor savers. Our decades-long experiment with tax-favored retirement accounts makes that clear. Far too many of us chose not to contribute to retirement accounts or not to contribute very much. That's, in part, why the Baby Boom generation, of which I'm a member, is so poorly prepared for retirement. Having the government force us to save is what Social Security is in large part about. The PSA system forces us to save for ourselves. What it doesn't do is force our kids to pay for our benefits.

# 10. Fixing Wall Street for Real

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Thanks to rampant fraud, regulatory failure, corporate greed, political kickbacks, insider ratings and policy failures, our financial system collapsed in 2008, putting 8.5 million Americans out of work and wiping out trillions in retirement savings. Unfortunately, the Dodd-Frank banking legislation did nothing to address the two core problems precipitating the banking crisis: leverage and opacity. Consequently, the financial system is poised to re-detone.

Traditional banking is unsafe at any speed. Even a very low, 10 to 1 leverage ratio (meaning the bank has borrowed \$9 of every \$10 it holds in assets) can lead to a bank run. The reason is simple. If the value of the bank's assets falls by just 10 percent, its liabilities will exceed its assets. If enough of the banks creditors believe the bank is broke or may be broke because others think it may be broke, they will run to retrieve their money before other creditors take all the money that's left. The run will guarantee the bank is either bailed out, bought out or forced to declare bankruptcy.

The fragility of traditional banking is dramatically worsened by opacity – the failure of banks to disclose the precise nature of their assets. If you and other creditors/lenders to a bank can't tell what the bank is doing with your money, the slightest piece of bad news about the bank's assets can spark a run. The run

can instantly spread to other banks as creditors of those banks question whether they can really trust that their own banks have the money they've promised to repay them and, if not, whether other creditors will withdraw all the money that's left. Panic, whether well-founded or not, can quickly undermine our trust-me banking system. It can do so even more quickly today than in 2008 when Lehman Brothers collapsed because Dodd-Frank has reduced the likelihood that Uncle Sam will arrive in the nick of time to make creditors whole.

The specter of bank failure is a signal to non-financial companies that money will be tight and that other companies will be laying off their workers as a result. But one company's workers are another company's customers. Hence, bank runs trigger firing runs in which companies fire their workers because they think other companies are or will shortly be firing their customers. Thus the massive economic collapse of 2008 was triggered as much by collective panic as anything else. Yes, major banks were and had failed, but the Fed was stepping up to provide loans to all comers, including RV dealerships and other companies to which the Fed had never made loans. Still, if you have to make payroll and you're no longer sure your customers will have jobs, you don't take chances. You lay off your workers before you, yourself, go under. In the months immediately following Lehman Brothers' collapse, roughly a half a million workers on Main Street were tossed out on the street every month because the banking panic had led to an economic panic.

If the banks were selling hot dogs, no one would care if people fled the market for weiners because of a rumor, whether true or not, that they contained E. coli. If the market collapsed and there were no more hot dogs, we could easily live without

them, for years, if necessary. But the banks aren't selling hot dogs. What they are doing is running a public good, namely the financial highway system. We wouldn't let one of the primary participants in our regular highway system, namely gas stations, collectively gamble with their businesses and periodically fail (simultaneously) leaving us unable to drive or transport goods. No. Congress would immediately pass a law making it a criminal offense for gas station owners to gamble with their businesses.

In the case of Wall Street, there is no such law. Why not? It's simple. The banks, particularly the handful of very big banks, have bribed Congress (not with cash in brown paper bags, but with campaign contributions) to let them borrow money, keep their creditors in the dark about how the money is invested, pocket the winnings and leave taxpayers to cover their losses. Heads I win, tails you lose is working for the banks. It's not working for us.

It's time to end trust-me banking. It's time to fix the financial system from scratch. My proposed reform, called *Limited Purpose Banking*, does that. It eliminates leverage by banks and all other financial intermediaries, and it forces all financial intermediaries to disclose online, in real time and in fine detail their assets and liabilities.

The plan is remarkably simple. As you can see at [thepurplefinancialplan.org](http://thepurplefinancialplan.org), Limited Purpose Banking has been formally endorsed or strongly supported by prominent economists and policymakers. The list includes five Nobel Laureates in economics; Mervyn King, former Bank of England Governor; George Shultz, a veteran of two U.S. administrations; Robert Reich, who served as secretary of Labor; and former U.S. Senator Bill Bradley, the Stephen

Curry of his day.

In my 2010 book, *Jimmy Stewart Is Dead*, I discussed the 2008 financial crisis from an economist's perspective and presented my Limited Purpose Banking proposal. I chose my book's title to point out that we don't live in Bedford Falls. Nor do we have our close and trusted friend, George Bailey, running the local bank. The Christmas movie that we've all seen many times over – *It's a Wonderful Life*, depicting George (played by Jimmy Stewart) saving his bank with the words "trust me" – wasn't playing in 2008 and it's not playing today.

I sent my plan and later my book to Congressman Barney Frank (of Dodd-Frank), hoping it would influence the Dodd-Frank legislation. I had met Congressman Frank once before and wanted to meet with him before the new banking law was passed. That didn't happen. But Congressman Frank did ask me to meet with him shortly after the Dodd-Frank bill was passed. When we met, the book was on his desk. He told me he'd read it in full and that a) it was exactly the right answer, b) Dodd-Frank was a "stop gap" measure, and c) he would work in the fall to enact my plan. I was delighted to hear this. But the Democrats lost control of the House, and Congressman Frank lost his chairmanship of the House Financial Services Committee. Whether Congressman Frank recalls our meeting and what he said and whether he still supports my proposal is for him to say. But six years ago he certainly did.

## **Limited Purpose Banking (A.K.A. the Purple Financial Plan)**

The essence of Limited Purpose Banking (LPB) is to limit financial middlemen to their legitimate purpose, namely

intermediating (connecting lenders to borrowers and savers with investors) rather than gambling. The way to arrange this is very simple. You just make all the financial intermediaries operate as 100 percent equity-financed mutual funds.

Most of us are very familiar with equity-financed mutual funds since we have our 401(k)s or other retirement accounts invested in shares (equity) of mutual funds. The mutual funds accept our contributions, give us back shares to their funds and then invest the money in the assets in which they specialized. If the assets they buy perform well, our mutual fund shares go up in value. If they perform poorly, our shares lose value. But regardless of what happens to the value of our mutual fund assets, the mutual fund itself stays in business. It never goes out of business. And, indeed, not a single equity-financed mutual fund failed in the crash of 2008.

Today there are more mutual funds, some 10,000, than there are banks. Thanks to a recent Securities and Exchange Commission ruling that largely forces money market funds to stop falsely claiming they can back your investment to the buck (i.e., you can't lose what you invested), almost all of these 10,000 mutual funds are 100 percent equity financed and, thus, can never fail. Each of these equity-financed mutual funds can be thought of as a small bank, but one that's failsafe.

The general idea, then, of Limited Purpose Banking is very simple. It recognizes that equity-financed mutual funds can never fail and requires that all financial intermediaries operate as holding companies (like Fidelity Investments or Vanguard) that issue only 100 percent equity financed mutual funds. This ensures that we never again have a financial run with its attendant economic fallout – never.

In contrast, breaking up the big banks into small banks or restricting commercial banks to invest in particular types of assets – the policies respectively advocated by Senator Sanders and Senator Clinton – provides no guarantee whatsoever against future financial panics. In the Great Depression, one third of the banks failed and virtually all were small. And the financial collapse of 2008 involved investment banks, mortgage companies and a huge insurance company, not commercial banks.

There are two types of mutual funds that already exist in the marketplace. Both would be used under LPB. The first is an open-end mutual fund, which invests in liquid assets and permits its shareholders to redeem (cash out) their shares whenever they want. The other type of mutual fund is a closed-end fund, which buys and holds assets.

An example of a closed-end mutual fund is one that invests in mortgages. The mutual fund might buy and hold 30-year mortgages. The shareholders of the mutual fund would collectively receive all the payouts of these mortgages over time and take a hit on those mortgages that defaulted. But the shareholders aren't locked into this investment. They are free to sell their shares to others on the secondary market.

Closed-end equity-financed mortgage mutual funds that are quite similar to what I just described have been operating in Denmark since 1795. They are also prevalent in Germany and Sweden. They are called covered bonds. The bonds are, effectively, the shares of the mutual fund and they are covered by (or invested in) mortgages.

What happens to checking accounts under LPB? They are replaced by cash mutual funds that literally hold only cash.

Their cash holdings would be held on reserve (in safe keeping) with the Federal Reserve. People could write checks on their cash reserve mutual funds. They'd also be able to withdraw their cash holdings at ATM machines. And they'd have debit cards, which they could use to make purchases. The use of the card would electronically transfer funds from the buyer's cash mutual fund to the seller's cash mutual fund. They would be no different from today's debit cards.

In the 1930s, a number of prominent economists from the University of Chicago and Yale University argued that the way to keep the banks from failing again was to make banks invest deposits placed in checking accounts in either cash or highly liquid short-term government securities. This proposal was called *Narrow Banking*. When they hear about LPB's cash mutual funds, some people incorrectly conclude that LPB is simply another name for or version of Narrow Banking. That's absolutely not the case. Yes, LPB's cash mutual funds represent a way to keep the payment system from ever failing since we'll always have secure cash holdings to pay for our purchases. But Limited Purpose Banking reforms the entire financial system, not just the payment system. Narrow Banking, for example, permitted banks to borrow to make mortgages and other loans. That's definitely not the case under LPB. Under LPB, banks become mutual fund holding companies and, if they want to connect lenders to would-be mortgagees, they just set up a closed-end equity-financed mutual fund that buys mortgages.

Another key feature of Limited Purpose Banking is the treatment of the derivatives market. Under LPB, all derivatives are provided via closed-end pari mutuel funds, which operate

just like racetrack betting.<sup>93</sup> To get the idea, think about people betting on horses A and B. But let horse A reference IBM defaulting on its bonds over, say, the next six months and horse B reference IBM bonds not defaulting over the next six months. A closed-end mutual fund, which sells shares that pay off if IBM does default as well as shares that pay off if IBM doesn't default, is, in effect, running a credit default swaps (CDS) market. CDS is a crazy name for an insurance policy, but that's what it is – insurance against a bond's defaulting. Someone who wants to be insured against IBM defaulting on its bonds in the next six months would put their money on horse A by buying the shares of the mutual fund that pay off if default occurs.

AIG, the world's largest insurance company, went under in 2008 because it sold CDS – guarantees that certain bonds wouldn't default – and then took the premiums it earned and invested them in a risky manner. That's very different from AIG simply playing the role of a middleman that organizes betting between those that do and don't expect a given bond to default over a given period of time. Running such a betting system can never lead to AIG's failure because all the money is on the table, and it's the betters' money, not AIG's. How do we insure that the money's actually there and not stolen by AIG? Easy, we require that all LPB closed-end mutual funds hold

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<sup>93</sup> Pari mutuel betting at the racetrack was developed in 1867. It involves people betting against each other, not against the house. Thus people come to the racetrack and, for example, bet on horse A or horse B. Once the race begins, the window closes (no more bets are taken, making the fund closed end, i.e., closed to new investment with an end date for the closing), and the winners of the race share the pot, less the track's fee. There is no risk that the winner won't get paid because all the money is on the table. This is the sense in which pari mutuel betting is 100 percent equity financed. Each person (investor) placing a bet gets a stake to (shares of) the pot (the investment) that pays off if his or her horse wins. And pari mutuel betting is also a derivatives market because the bet is derived from (based on) an external event, namely which horse wins.

(custody) their cash and other securities with the Federal Reserve.

Next suppose betting on horse A means betting that GM's stock, now selling for \$200 a share, will rise to \$300 a share within three months. Horse B means betting, simply, that it won't. In this case, the closed-end mutual fund running this bet constitutes an options market since the payoff would depend on whether the stock was above \$300 at the end of the three months. Absolutely all derivatives can be run this way, and no mutual fund offering derivatives will every need to be bailed out as did AIG.

## **Eliminating the Regulators**

The politicians have established a vast financial regulator sector to pretend that the banks are being supervised when in reality, in the words of President Franklin D. Roosevelt, they "gamble with other people's money." We saw how well all those regulators performed in 2008. Dodd-Frank vastly increases the amount of regulation and number of regulatory bodies. This does nothing to prevent another financial collapse. But it does help two parties – the large banks, since only they can afford the compliance costs, and government bureaucrats.

Under Limited Purpose Banking, there aren't hundreds of federal and state financial regulatory institutions. There is only one regulator, called the Federal Financial Authority, with a very limited mandate, namely to verify and disclose in fine detail and in real time the precise holdings of each and every LPB mutual fund.

Fortunately, the vast majority of bank regulators will find themselves doing what the vast majority of tax attorneys,

accountants and IRS staff will be doing – looking for jobs that make a real contribution to society. I don't mean to be mean or cavalier here about people having to change jobs. I have many friends who work in these professions and have done so honorably for years. But they too recognize that spending one's life helping people or companies avoid taxes is not socially productive. Neither is calculating tax liabilities and enforcing tax collection when taxes can be vastly simplified and paid with far less personal filing.

## **Breaking Up the Big Banks**

Senator Sanders wants to break up the large banks. But doing so has nothing whatsoever to do with the core problems with trust-me banking – leverage and opacity. In the early 1930s, one-third of the banks failed. The vast majority of them, as measured by their holdings of assets, were small. Hence, having a large number of small banks doing the same things that a small number of big banks do is no guarantee against bank runs and financial crisis. In many ways, breaking up the big banks would make a banking run far more likely, since the government would be letting the creditors to large banks know the government will protect their interests when push comes to shove. This makes them less likely to run to retrieve their money when they hear news about, for example, banks holding liar loans, but have no idea precisely what's involved.

For her part, Senator Clinton seems willing to break up the big banks once they agree to stop paying her and her husband massive speaking fees to, apparently, tell the banks what they want to hear. I say, apparently, because the senator has yet to disclose the transcripts of her speeches to eight big banks,

which collectively paid her close to \$2 million for her eight hours of “work.”<sup>94</sup> I view this as a fundamental and flagrant violation of ethics. Public service at the highest levels should not be a ticket to riches from those who seek to influence public decisions. Such service is an incredible honor, and that honor must be sufficient reward.

As for Mr. Trump, he too will become anti-big bank if he determines it will deliver him votes. Mr. Trump, as should by now be clear, has but one cause in which he fervently believes and for which he maintains consistent support – Donald Trump.

If one really thinks the big banks should be broken up into small banks, adopting Limited Purpose Banking is the ideal answer. It forces the big banks to reorganize themselves as mutual fund holding companies that own lots of small banks, namely 100 percent equity-financed and fully disclosed mutual funds.<sup>95</sup>

## Transitioning to Limited Purpose Banking

Moving to Limited Purpose Banking is very simple. We simply need to prohibit all borrowing by incorporated financial institutions and mandate that all such institutions reorganize as mutual fund holding companies. Banks will also need to convert their checking accounts to cash mutual funds. There are straightforward ways to do this, and plenty of excess reserves that banks can use to fully back their cash mutual funds, dollar for dollar, with cash. As for their existing loans, banks can continue to manage those assets. But their main task will be

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<sup>94</sup> <http://money.cnn.com/2016/04/20/news/economy/hillary-clinton-goldman-sachs>

<sup>95</sup> For the record, although I’m a proponent of equity-financed mutual fund banking, I don’t work for and have never worked for the mutual fund industry.

establishing and marketing open- and closed-end equity-financed mutual funds.<sup>96</sup>

## **Summing Up – Eight Steps to Implementing Limited Purpose Banking**

Here's how Limited Purpose Banking (LPB) works in closer detail.

1. LPB applies to all incorporated financial companies, be they commercial banks, investment banks, insurance companies, hedge funds, credit unions or private equity funds.
2. All financial corporations (i.e., all financial intermediaries protected by limited liability) must operate exclusively as mutual fund holding companies that market open- or close-end mutual funds.
3. Mutual funds are not allowed to borrow. Stated differently, they have zero leverage. And, since they are 100 percent equity-financed, no mutual fund can ever fail. Hence, the banking system will never again experience a run and collapse.
4. Mutual fund holding companies are required to offer cash mutual funds, which hold only cash and are used for the payment system.
5. Cash mutual funds are naturally backed to the buck. But no other mutual fund, including money market funds, will be permitted to declare they are guaranteeing investment returns.

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<sup>96</sup> My books *Jimmy Stewart Is Dead* and *the Economic Consequences of the Vickers Commission* provide detailed discussions of the transition.

6. A single regulator – the Federal Financial Authority (FFA) – hires private companies that work only for it. Their job is to verify, appraise, custody and disclose in precise detail and in real time the assets held by the mutual funds.
7. Mutual funds buy and sell FFA-processed and disclosed securities at auction. This ensures that issuers of securities, be they households or firms, receive the highest price for their paper (borrow at the lowest rate).
8. All derivatives are marketed via closed-end mutual funds that operate just like a pari mutuel better at the race track, namely with all money on the table.

# 11. Foreign Policy

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I've placed this chapter near the end of this book not because I view foreign policy as a secondary issue. On the contrary, it's the President's foremost responsibility and certainly the most critical issue our next President will face. However, before discussing foreign policy, I wanted to assure you, based on work I've done on more familiar ground, that I think deeply about issues, carefully consider all the facts, seek alternative views and advocate bold action where needed.

I don't claim expertise on foreign policy. I haven't studied the subject formally. What I have done over the years is taken every opportunity to discuss foreign policy, particularly national security threats, with the large number of U.S. and foreign government officials, military leaders, business leaders and members of the foreign press with whom I have come into contact during my extensive travels.

I also have no direct experience in setting foreign policy. Here Secretary Clinton has a distinct advantage, which needs to be recognized and respected. But my long observation of U.S. foreign policy and the foreign policies of other countries is that those in charge – and, therefore, in possession of both public as well as classified facts – are fully capable of making the worst possible decisions. Becoming entrapped in ground wars in Vietnam, Iraq and Afghanistan are prime examples of these mistakes. Hence, foreign policy experience is no guarantee of foreign policy judgment.

We also need to judge foreign policy decisions not just on actions taken but on actions not taken. This brings me to our nation's gravest national security threat: nuclear-armed North Korea, which has reached that ignominious description thanks to decades of U.S. foreign policy mistakes, specifically being naïve that the North Koreans were willing to negotiate in good faith and overvaluing the impact of sanctions on its nuclear armament decisions.

## North Korea

According to our military, North Korea now has nuclear bombs small enough to place at the top of a missile. Worse, it is building additional nuclear bombs and enhancing their destructive power on a full-time basis. This includes developing a hydrogen bomb, which North Korea claims to have already produced.

The North Korea threat compounds the Iranian threat. There is ample evidence that Iran and North Korea are sharing technology on both the production and delivery of nuclear weapons. Our recent agreement with Iran limiting that country's development of nuclear weapons will be of little value if Iran simply procures nuclear bombs from North Korea.

As the past has so painfully taught us, we need to watch what our enemies do, not what they say. Anyone who seeks to understand what North Korea has been doing should visit <https://www.armscontrol.org/factsheets/dprkchron>, which chronicles the arms control negotiations, starting in 1985, to prevent North Korea from acquiring nuclear weapons. The site documents our repeated failed attempts to induce North Korea, with both carrots and sticks, to denuclearize. As the document

makes clear, North Korea has never negotiated in good faith. Instead, it has used the three decades of overt negotiation to covertly develop the world's most lethal weapons – weapons they are aiming at us.

Our country went to war with Iraq in order to limit that country's *potential* nuclear threat. We did so on information that was known at the time to be questionable and which proved to be false. Yet we are remarkably passive when it comes to confronting an enemy that indoctrinates their children on a daily basis that the United States is the devil incarnate, that continually pledges to destroy us and that *actually* possesses nuclear bombs.

That passivity and naiveté has extended through the Clinton, Bush and Obama administrations. A prime example is President Obama's statement in 2013 discounting the North Korean's ability to miniaturize nuclear bombs and his suggestion we should give the North Koreans more negotiating time.<sup>97</sup> With all due respect to the President, whom I deeply respect, time is not on our own and certainly not on our children's side. In 2015, Army General Curtis Scaparotti, commander of U.S. Forces in Korea, testified that he believes North Korea now has miniaturized nuclear bombs that can be fired at the U.S. mainland atop North Korean intercontinental ballistic missiles.<sup>98</sup>

As President, I would deliver a clear message to North Korea that our patience has run out and that we will permit no further testing of nuclear weapons, no further development of

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<sup>97</sup> <http://www.nytimes.com/2013/04/17/us/politics/obama-voices-doubts-on-north-korean-nuclear-warhead.html>

<sup>98</sup> <http://www.pacom.mil/Media/SpeechesTestimony/tabid/6706/Article/585392/transcript-senate-armed-services-committee-hearing-on-the-us-pacific-command-us.aspx>

nuclear bombs and no further launching or testing of missiles of any range or type. I will also make clear that we are willing to negotiate a treaty with North Korea that normalizes relations in the context of their immediate, verifiable decommissioning of all nuclear weapons and all nuclear weapons production facilities and materials.

I would seek United Nation's approval of this policy and China and Russia's military participation in enforcing this policy as needed. But whether or not China and Russia act with us, our country, not theirs is in North Korea's target sights, and we must act now before the situation gets far more dangerous.

Mr. Trump is correct in saying that China has the most leverage in dealing with North Korea. But they have steadfastly refused to use that leverage to prohibit the movement of all goods apart from food and medical supplies across their border. We could, of course, inform the Chinese that if they trade with North Korea, they will not trade with us. This may reflect Mr. Trump's thinking. But that strategy would likely simply lead to a trade war with China and do nothing to impair the North Koreans' nuclear program. A country may be extremely poor yet still be able to assemble formidable military capacities by simply directing a very large share of its very small GDP to its military. (Russia's tremendous World War II war machine is testimony to this point.)

Furthermore, no American President should entrust our country's security to a foreign power, particularly one that views us with distrust.

Secretary Clinton has been involved over the years in the numerous failed attempts to resolve the North Korean nuclear problem. Yet I have heard no public commitment by the

secretary to suggest it's years beyond time to draw a line in the sand with North Korea. Her campaign website devotes a full page to national security, but there is not a single reference to North Korea. I find this baffling.

I realize that the course of action I propose is fraught with enormous danger to our country and allies, particularly South Korea and Japan. But inaction holds greater danger. In many ways this situation is similar to the Cuban Missile Crisis. President Kennedy could have chosen to take no action and hope that time would resolve the problem. Meanwhile the Soviet Union would have built up a large arsenal of nuclear missiles just miles from our shores. The risks of doing nothing in that context are similar to those today with one exception. The leaders of the Soviet Union, while despicable jailers of hundreds of millions of people, were rational. Whether the leaders of North Korea are rational is an open question. But there can be no question that confronting North Korea now, when we have the overwhelming military advantage, is the right move for ourselves and for our children.

## **Iran**

I believe we should pursue President Obama's historic deal with Iran that provides partial sanction relief in exchange for limits on Iran's nuclear activity. We need to make sure that Iran benefits fully from the sanction relief so Iranian voters will understand that moving away from confrontation delivers substantial economic benefits. But we should not permit Iran to continue developing long-range missiles that can deliver nuclear bombs, potentially purchased from North Korea, to anywhere in the Middle East and eventually to anywhere in Europe and the United States. Iran now has highly accurate missiles inscribed with "Israel should be erased from the map,"

which can now strike any target in the Middle East.<sup>99</sup>

As with North Korea, we need to tell Iran in no uncertain terms that they will lose their missile production and launch facilities if they continue to build and test long-range missiles.

## ISIS

ISIS is a hideous menace to humanity. It must be eradicated. Step one is preventing ISIS from occupying any major city on an extended basis. Our policy should be to hit ISIS hard where we can find them and then withdraw. We should not become entrapped in a prolonged ground war either in the Middle East or Afghanistan. Nor should we treat the war on ISIS as primarily our responsibility. At the end of the day, the peoples of the regions affected by ISIS must defend themselves against these barbarians. We can help from the air and with special forces. Step two is getting our allies in the region fully engaged to destroy ISIS. This is their responsibility far more than it is ours. As President I would make crystal clear to our allies in the region that we will fight with them, but not for them, and that I expect to see all branches of the Turkish, Saudi and Gulf States militaries fully engaged in fighting ISIS.

## The European Union

The European Union needs to emerge from its long economic malaise. The U.S. has a vital national security interest in ensuring this happens. Unfortunately, like the U.S. and Japan, it has decided that it can lift its economic prospects

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<sup>99</sup> <http://www.nytimes.com/2016/05/13/opinion/ted-cruz-the-mullahs-and-their-missiles.html?action=click&pgtype=Homepage&clickSource=story-heading&module=opinion-c-col-right-region&region=opinion-c-col-right-region&WT.nav=opinion-c-col-right-region>

via a combination of monetary and fiscal policy, consisting of printing huge sums of money to pay for euro-member country bills, which also produces very low interest rates. The European Central Bank (ECB) has been at this for a very long time with limited success.

Unemployment in the European Union is close to double that in the U.S. In certain countries, particularly Spain and Greece, the unemployment rate remains astronomical. These and other countries need to engage in further structural reforms that encourage employers to hire. Real wages must be permitted to fall to the levels needed to make hiring in these countries competitive. Those who prevent this from happening, whether it's political parties or unions, are doing the unemployed no favors.

The EU should also adopt Limited Purpose Banking and do so on a fast -track basis. Under the current monetary and financial arrangements, countries can borrow money from their private banks (sell their bonds to their private banks) and then, as in the case of Greece, threaten to default on their debt. Since the failure of even a few private banks could trigger a massive run on all private banks in the EU (if not beyond), fiscally irresponsible governments have enormous leverage to insist on bailouts. This form of financial blackmail has brought Greek debt relief, but it hasn't brought the country a return to economic growth. The reason is that the international investment community views Greece as highly risky from a tax perspective since Greece could levy confiscatory taxes on private investments made in the country.

Some have called for a fiscal union across the EU countries. But there is a limit to how much the British, for example, can be asked to pay the bills of, for example, Croatians. What's

needed is a means to break the fiscal-banking blackmail that too many countries in the eurozone are adopting as an alternative to reforming their labor markets and getting their fiscal houses in order.

Limited Purpose Banking is the perfect solution because once it's in place, banks can no longer go bankrupt. Indeed, under LPB, there are no banks per se. There are just equity-financed mutual funds, none of which can fail. LPB eliminates the need for fiscal union. It also eliminates the pressure on the ECB to print money to maintain the solvency of private banks that have purchased, no doubt under pressure of their country's finance minister, far too many government I.O.U.s whose value falls with each debt repayment crisis. Finally, LPB will permit a country like Greece to default on its debt, which may be its best course of action, without facing a bank run.

## Russia

I am deeply concerned about the direction in which the U.S.-Russian relationship is heading. I'm old enough to remember Nikita Khrushchev pounding his shoe on the UN podium shouting, "We will bury you." I remember the Berlin Wall being built. I remember the Berlin airlift and watching the Cuban Missile Crisis on our small black and white, grainy TV. I remember crossing through Checkpoint Charley into East Berlin at age 15, while an exchange student, and seeing with horror the bleak city the Wall entrapped. I remember my uncle, a left-wing sociologist, telling me about Joe McCarthy and the Red Scare, which cost many of his friends their jobs. I remember the Vietnam War, which killed and maimed so many even after it was clear that the war was not about stopping Communism but about saving political face. I remember

President George H. Bush imprudently and falsely claiming, “We won the Cold War.” All the miscalculations and all the reckless rhetoric by the Russian and American superpowers across all those years achieved just one thing. They repeatedly brought civilization close to annihilation.

During my trips to Russia, I’ve talked with a wide range of people about Crimea, the Ukraine, Syria, NATO and related topics.<sup>100</sup> Two things come across loud and clear. First, the Russians are a very proud and patriotic people. Second, the Russians feel threatened by the expansion of NATO. This doesn’t excuse their forceful annexation of Crimea or their participation in hostilities in Eastern Ukraine. But it does explain it.

Crimea became part of the Russian Empire in 1783, but was given to the Ukraine in 1954 by Khrushchev – according to his daughter, as a present. Khrushchev presumably never dreamed that the Soviet Union would dissolve and that Crimea would become the property of an independent Ukraine. Russia is the world’s largest country and doesn’t need more land. But Russia’s Black Sea naval base is located in Sevastopol, which is part of Crimea. Imagine that a U.S. President had handed Hawaii, including Pearl Harbor, to, say, the Chinese, and you’ll get a sense of Russian feelings about Crimea.

The Ukrainians, no doubt, view the gift of Crimea very differently, perhaps as meager recompense for Stalin’s murder, in the early 1930s, of a quarter of its population, including

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<sup>100</sup> I’ve been working for over three years, primarily long distance, with the Gaidar Institute in Moscow, helping their fine economists study Russia’s fiscal policy. We’ve been studying Russia’s long-run fiscal position, its projected demographic change and its economic transition. Like the U.S., Russia faces major challenges in maintaining its fiscal programs and sustaining economic growth. These challenges have been greatly worsened by the decline in energy prices and the international sanctions.

some 3 million children, via forced starvation.

Of course, Crimea was part of an independent Ukraine for the past 16 years. So why did the Russians wait till 2014 to retake it? This connects to NATO's expansion and Russia's fear that the Ukraine would join NATO. When the Soviet Union broke up, the Russians believed they were given informal, but nonetheless firm assurances that NATO would not expand into the Baltic States as well as Poland, Bulgaria, Romania. All six of these countries are now in NATO, and four of the six border directly on Russia.<sup>101</sup>

NATO was established to defend the West against the Soviets. But large numbers of Russians worry that its current purpose is to encircle, threaten, weaken and ultimately invade Russia. This seems paranoid until you consider Russia's long history, which includes invasions by Sweden, France and Germany. Nazi Germany's invasion was assisted by tens of thousands of Ukrainians. Yes, far more Ukrainians ended up fighting with the Soviets, but the Russian people retain a real fear of "Ukrainian fascists."

In 2014, pro-Russian Ukrainian President Yanukovich was overthrown in what many/most Russians view as a Western-inspired coup. The Western view is quite different – that the overthrow was a populist uprising against a terribly corrupt leader. Either way, Russians viewed the loss of their guy as step one in Ukraine's joining both the European Union and NATO.

What followed in Crimea and Eastern Ukraine has established facts on the ground. Russia has guaranteed that NATO troops and armaments won't be stationed within feet of

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<sup>101</sup> Lithuania and Poland border on Kaliningrad, which is a part of Russia.

its Black Sea naval base. And it has established a relatively easy means to destabilize Ukraine if that country becomes too cozy with the EU or NATO. It is also ensuring access to jet engine plants and other factories in Eastern Ukraine that are critical to its military.

But Russia is paying a heavy price for what it views as additional military security. The sanctions are very costly and will hurt more through time. In addition, Western Europe will increasingly wean itself off Russian gas to limit Russia's leverage. Furthermore, the decision by President Obama to send \$3.4 billion in heavy tanks and other military equipment to NATO countries in Central and Eastern Europe will produce further costly rearmament by Russia.

So we now have the absurd situation of two major powers, Russia and NATO, squaring off as if they would actually go to war when both have nuclear weapons and would use them were either invaded. No rational U.S. President would order an invasion of Russia even if it had only a single nuclear-armed missile that could take out San Francisco, New York or any other major U.S. city. And Russia has a vast number of such missiles. Equivalently, no rational Russian president would invade a NATO-member country for fear of losing Moscow, St. Petersburg or some other major Russian city – all in the nanosecond it takes for a nuclear bomb to explode.

The danger of having two schoolboys shout threats in the playground is that one pretends to throw a punch and the other reacts by doing so. With Russian and NATO air, land and naval forces positioned in close proximity, there is a growing danger of an accidental military encounter that quickly escalates into that Cold War acronym – MAD, mutually assured destruction.

The Russians want assurances that the Ukraine will not join NATO. We want the Russians to stop interfering in the Ukraine. As President I would seek to reach a deal with President Putin that contained these elements. But if President Putin wants to impress his citizens with aggressive military behavior that threatens our country and our European allies, he will regret that decision.

## **China and India**

China and India are growing so rapidly that they will, by the end of this century, constitute, economically speaking, most of the developed world.<sup>102</sup> This, of course, assumes a smooth economic transition and that our countries do not return to the long wasted years of mutual fear, animosity and trade restrictions.

Our country needs to be prepared for and welcome China and India's long-term economic ascendancy. This will be no easy matter. We Americans are used to calling the shots and winning when it comes to global economic and political affairs. But we have learned, through the costly and ultimately unsuccessful engagements in Iraq and Afghanistan, that there is a limit to American power.

Our job with China and India is to prepare them for full partnership with the United States, the European Union and Russia in protecting our planet and policing the world. This is far easier said than done. China's political system is entirely different from our own as evidenced by its limited respect for human rights, particularly the freedom of political expression.

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<sup>102</sup> <http://www.kotlikoff.net/sites/default/files/russia-2-0.pdf>

In addition, it is becoming increasingly aggressive in staking claims to disputed waters and landmasses in the South China Sea.

I'm no expert on China, Russia, North Korea, Iran or any foreign country for that matter. Our country has many such experts, and as President I would make full use of their knowledge and advice. But I have been to China a number of times. I have talked at length with Chinese government officials as well as Chinese academics. I think that, as with Russia, there are things that China seeks in our relationship that we can deliver at a low cost to our national security and economic interests and that there are things that China can deliver, specifically reaching an agreement that shares the South China Sea with its many claimants. Such an agreement would entail China putting maximum economic and, if needed, military pressure on North Korea to lay down its nuclear arms, reaching a solution to the Korean conflict and join with us to help a denuclearized North Korea achieve the same level of prosperity as South Korea has attained.

But let me be clear, I would not sit idly by and let China unilaterally seize and extend land formations in the South China Sea. The U.S. and its Asian allies are China's top trading partners. I would make clear to the Chinese that continued unilateral expansion of landmasses in the South China Sea absent a final agreement by all parties will lead swiftly to a multi-country embargo on Chinese imports at great damage to all parties involved.

## Israel

I'm a very strong supporter of Israel, which I've visited roughly eight times over the years. I think countries and groups

that threaten Israel's existence, and here I speak primarily of Iran, Hamas and Hezbollah, need to understand that such threats, verbal and physical, must stop or they will pay a price.

Israel lives in an extremely dangerous neighborhood. I don't think we should tell it how to defend itself. I do think that Israel's long-term security lies in reaching an accommodation with the Palestinians that a) recognizes a demilitarized Palestinian state, b) shares Jerusalem as the capital of two great peoples and c) ensures Israel's security. The borders of such a Palestinian state should be based on the long history of negotiations between the two parties. The two parties have gotten close enough over time to an agreement that the parameters of a final, mutually acceptable settlement should be relatively clear. Many U.S. presidents and secretaries of state have worked long and hard without brokering a lasting agreement between the two sides. I think getting the two sides to shake hands over an agreement is asking too much. Both sides might, however, welcome an agreement announced by the United States and ratified by the United Nations. I would seek to make that happen if both sides proved receptive.

## **The Rest of the World**

Unlike Mr. Trump, I believe that our country benefits enormously from free trade, including trade with China and Mexico. The idea espoused by Mr. Trump and somewhat echoed by Secretary Clinton that we can prosper economically without open trade is, in my professional judgment, ludicrous.

We need to treat every country and particularly our largest trading partners – Mexico, Canada and China – with enormous respect. The world is a tough place to do business. There is

enormous competition, and the business environment is fast-moving and ever-changing. We've lost our footing very badly, but blaming our problems on foreign competitors is not going to help us. What it can do is hurt us, very badly. The last thing we want is a trade war with Mexico or China or any other country with which we seek to do business.

Our country, as a whole, benefits enormously from foreign trade. It permits us to purchase products from abroad at far lower cost than would otherwise be the case and provides us access to markets all over the world to sell the vast array of products we export. If you want to get a sense of how badly we'd fare were we to eliminate foreign trade, consider how well we'd fare if we could only buy from and sell to people in our own state or, even worse, people in our own town.

In this regard, let me make clear that I strongly support the Trans-Pacific Partnership (TPP) agreement. I've discussed the agreement with international trade experts and am convinced that the deal is strongly in our country's interests. The TPP primarily reduces trade barriers facing our exporters rather than reducing the already very low trade barriers facing foreigners exporting to our country.

When it comes to the rest of the world more generally, the United States has to make sure it doesn't focus too much of its attention on Europe, Russia, China, Iran, North Korea and the Middle East. We have important interests in South Korea, Southeast Asia, Africa and Central and South America. We need to help these countries develop their economies and fight their battles against the extremely dangerous Zika and Ebola viruses as well as other contagious diseases, current and future.

We also need to help Africa, and for that matter, the Middle

East, deal with their immense population explosion problems. The world at large is on a path to increase its population by 3 billion people over the next 45 years. That's more than two Chinas, more than seven Americas and more than 37 Germanys!

Much of the growth in world population will occur in Africa and the Middle East. If I had my choice as to where to add 3 billion people, those regions would be last on my list. They are already suffering from overcrowding, poor healthcare, excessive use of fossil fuels, civil war, limited rule of law and infectious disease. There are two major contributions the United States can make to limit population growth in these regions. The first is to assist in the supply and distribution of contraceptives. The second is to provide people with internet banking accounts, which are invested in the global economy at zero cost with one's account balance accessible at any ATM anywhere in the world.

When impoverished people in Third-World nations choose to have seven children per woman (e.g., Nigeria's current fertility rate), they are doing so for many reasons. But one of the most important reasons is to provide for their old age. Given the internet and the prevalence of cell phone technology in the developing world, it is now possible to provide the poor with zero-cost ways to save and invest and, ultimately, use their accumulated savings to purchase annuities. Together with economist James Henry, I suggested in a 2005 Wall Street Journal article that the World Bank set up such accounts.<sup>103</sup> The then-president of the World Bank, Paul Wolfowitz, invited us in to discuss the plan. He liked the idea, but never took it up.

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<sup>103</sup> <http://people.bu.edu/kotlikof/New%20Kotlikoff%20Web%20Page/WSJ%20-%20Why%20Can't%20the%20World%20Bank%20Be%20More%20Like%20a%20Bank.pdf>

I imagine that as President, I could strongly encourage the World Bank to become what its name suggests – a bank. In this case, a bank for everyone in the world who needs, but doesn't yet have, a bank, let alone one that can process remittances at zero cost and that can invest globally at zero cost.

# **12. Social Issues**

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Social issues are of very major concern to all Americans, so let me lay out my views in quick order.

## **A Women's Right to Choose**

I support a woman's right to choose whether or not to terminate an unwanted pregnancy within the limits established by the Supreme Court in Roe v. Wade as modified by Planned Parenthood v. Casey. These decisions are the law of the land, and as President I would vigorously uphold this right.

The U.S. Constitution was designed to balance competing rights and conflicting and often strongly held views, in this case over morality. Roe v. Wade balances a woman's privacy rights against the right to life of a fetus, which is initially unviable outside the womb but reaches the point of viability in roughly 24 weeks. The Supreme Court reached its Solomonic judgment in Roe v. Wade – that abortion was legal prior to the point of viability – with a majority of justices who had been appointed by Democratic presidents supporting the ruling. In Planned Parenthood v. Casey, the court reaffirmed Roe v. Wade. In that decision, the majority of justices were appointees of Republican presidents.

Although I (and Ed) strongly support a woman's right to choose subject to court-ordered legal limits, there should be no doubt about my feelings about abortion. Abortion, of which

there are roughly three quarters of a million preformed annually in our country, is a tragic event. A newborn baby is God's gift if ever there was one. When my former wife and I lost our son Henry at full-term, it was and remains the most devastating experience of my life and hers.

The issue for many is whether life begins at the very instant of fertilization. For those who believe unequivocally that it does, abortion is immoral, plain and simple. For those that believe viability outside the womb marks the attainment of and right to life, abortion before that point is moral, yet terribly tragic. The strongest advocates of the right to choose do not extend that right beyond the period of viability. In that sense they are right to lifers. And the strongest right to lifers would not compel two people to procreate. In that sense, they too believe in the right to choose. Put this way, we are all in both camps and are all struggling individually and collectively to draw a line. Each of us is entitled to his or her own position, but we need to respect the courts in adjudicating our conflicting views within the strictures of the Constitution.

As for my nominee to replace Justice Scalia on the Supreme Court, I would start my search with President Obama's nominee, Justice Merrick Brian Garland, assuming he is not confirmed while the President is in office.

## Racism

Do black lives matter? Of course they matter. They are as precious as the lives of any other American. The fact that one need raise such a question a century and a half after the end of slavery and when our President is African American is, again, passing strange. It is testimony to the transformation of the

Peculiar Institution into the Persistent Institution – the stubborn failure to imagine ourselves as someone else or, as President Kennedy put it, to stand ready to change the color of our skin.

While in graduate school, I wrote several papers about the economics of slavery, including one on manumission – the freeing of slaves. By an accident of timing, I was the first person to systematically examine the bills of sale of thousands of slaves at the New Orleans slave market throughout the first half of the 19<sup>th</sup> century. Looking at these data, even via computerized tape, always made me queasy. To this day I wonder if studying this market was morally appropriate. You could use the data to answer all manner of economic questions that you might ask about any market. But you also knew that each record was one of horror for the slave, disgrace for the seller, and degradation for the buyer.

The only way persistent, pernicious institutionalized racism will change in our country is via education. As President, I would establish the United States Slavery Museum in our nation's capital. I would hope that every American child would visit this museum to learn about slavery, which has left such a deep, painful, and permanent scar on our nation's history. Slavery is racism in its most apparent as well as terrible manifestation.

The United States Slavery Museum will not eradicate modern-day racism. It will, however, make a public confession of our country's sin of racism and teach our children that racism, whether historical or current, is a disgrace that has no place in our country.

## **Gay Marriage**

Thanks to the Supreme Court's decision, gay marriage is now legal throughout our country. I strongly support this decision and, indeed, have supported gay marriage for as long as I can remember. No one has the right to tell others who they can and cannot love. Nor does anyone have a monopoly on the choice of language. People who are in love and want to declare their love by describing themselves as married and affirming that choice of words officially, with all the legal implications of marriage, should be and now are freely able to do so.

## **The Legalization of Drugs**

The use of powerful, addictive drugs, like the use of cigarettes, and the overuse of alcohol should be strongly stigmatized by society. In addition, I think there should be criminal penalties for distributing any type of drugs in any quantity to those under age 18. This said, I believe that states should be free to legalize, regulate and tax the sale and distribution of marijuana for medical and recreational use. I also believe that the use of drugs that entails neither distribution to those under age 18 nor harm to anyone with the exception of the user himself or herself should be legal. The sale and distribution of drugs other than marijuana should be proscribed and criminally sanctioned.

I've reached these views about criminalization of drug use and its distribution from observation of our country's long and failed war on drugs. The facts make this failure irrefutable. Heroin use has risen 50 percent in the past decade.<sup>104</sup> The death rate from drug overdose has risen almost twelvefold since the

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<sup>104</sup> [http://www.huffingtonpost.com/2014/02/21/america-heroin-charts\\_n\\_4817130.html](http://www.huffingtonpost.com/2014/02/21/america-heroin-charts_n_4817130.html)

early 1970s. The non-prescribed use of opioid painkillers has also risen dramatically.

It's time to reorient our war on drugs. We should immediately stop incarcerating non-violent drug users whose use did not involve distribution to minors or sale to adults. Instead, we should use the resources we'd otherwise be spending on incarceration to treat the users' drug dependencies.

## Incarceration

Our home of the free has the highest incarceration rate of any country in the world, and our drug laws have a lot to do with that. Among developed countries, nobody else comes close. Our imprisonment rate is six times that of Britain, seven times that of Germany and nine times that of France. We have only 5 percent of the world's population, but 25 percent of the world's prisoners.<sup>105</sup>

America's lockup rate is not only miles out of line with that of other countries. It's completely out of line with our own past practice. Today's rate is five times what it was in 1970. Much of the increased incarceration is concentrated among drug offenders who engaged in non-violent conduct. Their numbers have increased twelvefold since 1980. Among groups disproportionately involved in trafficking drugs, incarceration rates are staggering. Fifteen percent of white male high school dropouts and 69 percent of black male high school dropouts will spend time in jail by age 35. These figures are four and five times higher, respectively, than they were in 1979.

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<sup>105</sup> <https://www.washingtonpost.com/news/fact-checker/wp/2015/07/07/yes-u-s-locks-people-up-at-a-higher-rate-than-any-other-country>

In 2008, more than 2.3 million Americans – roughly the population of our fourth-largest city, Houston – were locked up. China, with about four times the U.S. population, has 1.5 million people behind bars. Tally the number of Americans in jail, on parole or on probation and you’re talking close to the populations of Los Angeles and Chicago combined. The cost of putting so many people away or under surveillance is huge. Half of these expenditures are made by state governments, many of which are in terrible fiscal shape.

Connecticut, Delaware, Michigan, Oregon and Vermont now spend more on prisons than on higher education. For those released from jail, legitimate jobs, let alone well-paying ones, are very hard to find. More than half of prison inmates have minor children. Consequently, millions of our kids are now growing up with at least one parent incarcerated, which helps explain why our country leads the developed world in the rate of child poverty.

The incarceration of African Americans for drug-related offenses is particularly disturbing. Today the number of African Americans under control of the criminal justice system exceeds the number of African Americans who were enslaved in 1850.

Those selling drugs to minors, which is outright child abuse, should be locked away for a very long time. For those who use drugs that involve no provision to minors or sale to anyone and no violence, there should be medical treatment, not incarceration.

## **Gun Control**

Our country has an enormous problem with gun violence.

Every day, 48 children and teens are shot, seven of whom die and 41 of whom are injured, often severely and for life.<sup>106</sup> Add in adults shot by guns and we're talking almost 300 shootings of Americans day in and day out across our country. Of these, a total of 89 die. Over Memorial day weekend, almost 70 people were shot in Chicago, alone, leading to 6 deaths.

We are now well attuned to the near daily bombings in Iraq. Our 300 daily casualties from guns is no different from a huge daily bombing occurring in a major city of the United States. Imagine, if you would, a daily Boston Marathon bombing. That bombing killed 3 people and injured 264. What we are experiencing every day across the country from guns is the equivalent of this horrific episode -- actually far worse since it involves twice the number of deaths.

Orlando just experienced close to 50 deaths and a similar number of injured at a gay nightclub. The slaughter was committed by a deranged adherent to ISIS, who came equipped with a newly purchased assault weapon and a handgun.

Whether you are a member of the National Rifleman's Association (NRA) or not, you need to admit that America has to do something major to reduce gun violence. The problem is not, however, the legitimate ownership and use of guns by sportsmen and sportswomen. The problem is permitting guns to fall into the hands of criminals, terrorists, the mentally deranged and children.

It's time for the NRA to help us formulate a new gun policy that stops the carnage. As President, I would work with the NRA to achieve such a policy – a policy that does not undermine the Second Amendment.

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<sup>106</sup> <http://www.bradcampaign.org/key-gun-violence-statistics>

The Second Amendment, which I strongly support, clearly protects our right to bear arms. But does it permit us to own tanks and drive them around town or, for that matter, jet fighters? The founders had no idea that man would ever fly. Consequently, the Second Amendment is not going to help us resolve the right to own and operate an F-16. As a society, we've drawn lines as to which guns (broadly defined to include anything that delivers munitions) are and are not covered by the Second Amendment. F-16s are out and hunting rifles are in. I'd lump assault rifles together with F-16s.

The point is that each “gun” needs to be considered on a one-off basis to determine whether or not it represents a grave threat to society if possessed by a criminal, a terrorist or a lunatic – a threat that overrides its recreational value and value as a legitimate means of self-defense.

The question of what weapons should be legalized for private use should and can be separated from the question of whether a given person should receive a permit to own and operate particular legal weapons. No one, not the most ardent Second Amendment advocate, would argue that those convicted of a violent crime should have a right to bear arms. Nor does it make sense to let those on the FBI's terrorist watch list or the FAA's no-fly list to purchase guns, particularly assault rifles.

But, as I write, this is the state of play. You can formally be viewed as a potential terror threat and still walk into a gun store and buy whatever you need to massacre innocent men, women, and children. The Orlando shooter did precisely this. He walked into a gun store, bought what he wanted with no questions asked and then spent three hours shooting up 300 innocent people – this despite the fact that he had been on the

FBI's watch list in the proceeding few years.

I believe we should be extremely careful to conduct thorough background checks prior to issuing gun permits. We need to make the instant background check failproof and fully enforce the background check system. Gun sellers that fail to use the system should be legally prosecuted. The gun-show loophole needs to end immediately, and straw man purchases of weapons needs to be a federal crime. I'd also ban semi-automatic assault weapons and come up with a system to prevent the mentally ill from purchasing guns. In addition, I'd require thumb print trigger locks to prevent the theft and use of guns and dramatically limit accidental gun deaths. But all this said, I'd begin the discussion of new gun legislation with the NRA and challenge that organization to come forward and help the country stop the daily gun carnage that is threatening their own children as well as everyone else's.

Finally, given the extent of the domestic and foreign terror threat, we need to provide the public with non-lethal means for its self-defense. One such policy would involve deputizing well-vetted adults into the local police force and requiring them to carry stun grenades (if they can be made safe against accidental use). These grenades could be used to oppose shooters like the domestic terrorist in Orlando. Of the hundreds of people he had under his complete control for three hours, not a single one had any means to defend themselves or others against the killer's assault rifle and handgun. The victims of the domestic terror attack last December in San Bernadino were equally defenseless. So were the teachers and other adults at Sandy Hook high school massacre in December 2012.

Providing the public with the ability to defend itself also can dramatically lower the horrific daily shootings in our major

cities. The public does need to be able to protect itself. But lethal guns are not the sole or best means of its protection. Moreover, once we have an effective system in place of citizen self protection, homeland defense, call it what you will, the NRA will be hard put to argue that unfettered access to assault weapons and other guns that can rapidly discharge lethal rounds is needed for our self defense.

# 13. My Running Mate and Cabinet

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My choice for Vice President is Edward Leamer. Ed is one of the world's premier economists. He's a specialist in international trade, macro economic forecasting, macro economic policy analysis and econometrics — the statistical analysis of economic data.

I first met Ed in 1973 when I started graduate school in economics at Harvard where Ed was serving as a young professor. Even though he was a professor and I was a student, we instantly became friends and have remained extremely close friends over the years. In 1975, Ed left Harvard for UCLA. I joined him there as a post doctoral fellow in 1977. I headed to Yale in 1980, but the three years with Ed were an exceptional education in how to pose and answer economic questions.

Ed and I have spent the intervening years discussing economic policy problems and solutions. We are of one mind on our domestic problems and foreign policy challenges and how to address them. This includes the paramount importance of fixing our institutions from the ground up and placing our children's welfare at the center of all policy discussions.

When I wrote the first draft of "Write Me In, But Don't Send Me a Penny," I thought it would be best to seek out a Vice President with foreign policy or military experience. But as I thought about who I'd most want at my side if elected, Ed Leamer kept coming to mind. Obviously, proper decision making requires learning and questioning the facts — all the

facts. It also requires consulting those with expertise and experience in the matter at hand. But in the final analysis, it requires intelligent, sober, and exceptional judgement. That's what Ed Leamer brings to the table — a formidable mind capable of thinking carefully, critically, and maturely about problems, no matter their size or nature, and making the right calls based on everything that's known as well as unknown about the problem at hand.

I'm absolutely delighted that Ed has agreed to run with me. There is a reason that Ed is one of the world's most highly respected economists. His professional achievements are astounding, but his character and integrity are even more impressive.

## **Our Dream Team**

It may seem presumptuous to discuss possible cabinet choices before determining whether Ed and I have much prospect for election. But our chances depend on you and others understanding the type of people we would choose to help lead our country. Please, therefore, indulge this exercise – connecting possible names with cabinet and other senior administrative positions. We've not talked to anyone on this list about any of these positions. So please just view the following for what it is – an attempt to give you a sense of the type of people we'd recruit.

Senator John McCain would make an outstanding Secretary of Defense. So would Senator Lindsey Graham. Former Defense Secretary and former CIA Director, Robert Gates, would make an excellent Secretary of State. So would Ambassador Dennis Ross. I'd ask my friend, Admiral William Owens, former Vice Chair of the Joint Chiefs, to serve as

National Security Advisor. California Senator Diane Feinstein has an excellent background to serve as CIA Director. Senator Rob Portman would serve our nation particularly well as Secretary of Homeland Security. Columbia University economist, Jeffrey Sachs, would make an outstanding U.S. Ambassador to the United Nations.

Berkeley Professor Alan Auerbach, a top public finance economist, would do a great job as Secretary of Treasury. So would current Fed Chair, Janet Yellen. I'd ask former FDIC Chair, Sheila Bair, to head up the Securities and Exchange Commission.

I'd ask my friend John Kasich, former Chair of the House Budget Committee, to serve as Director of the Office of Management and Budget. And I'd ask Senator Sanders to serve as Secretary of Health and Human Services.

Alan Kreuger, an outstanding labor economist, who served as an Assistant Secretary of Treasury and chaired President Obama's Council of Economic Advisors, would make a marvelous Secretary of Labor. I'd eliminate the office of National Economic Advisor and restore the President's Council of Economic Advisors to its former status. MIT economist, Daron Acemoglu, would be my top pick for Chairman of the CEA.

Roland Fryer, an economics professor at Harvard, would make an excellent Secretary of Education. So would Caroline Hoxby, an economics professor at Stanford. Both Fryer and Hoxby are at the forefront of research on what really works in education.

What about Secretary of Commerce? Mitt Romney, Bill Gates, and Michael Bloomberg are names that immediately

come to mind. Preet Bharara, who now serves as U.S. Attorney for the Southern District of New York, would make a superb U.S. Attorney General.

Senator Marco Rubio would make a fine Secretary of Interior. Senator John Thune would be an excellent Secretary of Agriculture. Senator Barbara Boxer would make a fine Secretary of Housing and Urban Development. I'd ask my close friend, Roger Ballentine, an attorney, former Deputy Assistant to the President for Environmental Initiatives, and President of Green Strategies to serve as Head of the Environmental Protection Agency. Senator Patty Murray would make a very fine Secretary of Veterans Affairs. Gib Metcalf, a top economist at Tufts University and former Deputy Assistant Secretary for the Environment and Energy at the U.S. Treasury, would make an outstanding Secretary of Energy. Finally, we'd likely look to Senator Kelly Ayotte to hopefully serve as Secretary of Transportation.

This dream team of administration officials tells you what we'd be after – great experience, knowledge, diversity, and a lot of economists.

## 14. Vote for Your Children

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Let's take stock. We have real wages that have stopped growing, an economy that's barely growing, a tax system that doesn't work, a banking system that doesn't work, a healthcare system that doesn't work, a Social Security system that doesn't work, a carbon policy that doesn't work, and an educational system that doesn't work.

Our country is as broke as broke can be – to the point that crumbling infrastructure is the new normal. Across the ocean our sworn enemy, North Korea, spends each day perfecting the means to attack us with their nuclear bombs, while we seem to look the other way. Another self-declared enemy, Iran, also works overtime to put us and each of our allies in its missile sites. This too has somehow become acceptable behavior. And then there is ISIS, which spread like wildfire while we sat back and watched in dismay.

This is no time for politics as usual. The stakes are far too high for ourselves and our children. But our two parties offer nothing more. For her part, Secretary Clinton has evinced no understanding of the depth of our fiscal problems let alone how to fix them. She has no plans, unless they are well hidden, to fundamentally reform our tax system, our healthcare system, our Social Security system, our banking system, or our educational system. Nothing in her agenda will kick start our economy and rapidly produce more jobs and higher wages.

As for national security, I don't detect in her platform any

clear course of action that will deter North Korea and Iran from ending up with nuclear weapons planted atop very long-range missiles. I read nowhere of her plans to repair our deteriorating relationships with Russia and China. Nor do I find any real understanding of the importance to our security of maintaining the European Union and helping restart its economic engine. As for climate change – the elephant in the room – we need an immediate and very high carbon tax. We don't need another politician who can't say the words "carbon tax" and sets emissions goals for years down the road, giving energy producers plenty of time to use their massive reserves of dirty energy before they lose them.

Secretary Clinton has worked tirelessly for our country over many long years. I deeply respect her service. But we need new ideas and an action plan, not political gridlock that will restart on day one. As for Mr. Trump, he is an embarrassment to himself and to our country. He is not fit to be President. His campaign has consisted of denigrating his competitors, blaming our trading partners for our problems, insulting females, stereotyping Muslims and Mexicans, extoling his brilliance, listening to himself, and substituting "trust me" for a platform.

The world saw an array of egomaniacal demagogues in the last century. The worst gained control in Germany, Japan, the Soviet Union, China, and Italy. They collectively destroyed over a hundred million lives and did incalculable damage to their countries. Donald Trump is a demagogue with an unbounded ego and no self-control. He represents a danger to our country and the world.

I didn't reach the decision to run for President lightly. Like you, I'm fed up watching the American dream become something it's never been – just a dream. I'm not a politician.

I'm not into sound bites and pep rallies. My message is plain and simple. It's time to fix our country the right way and from the ground up. It's also time to tell our self-declared enemies, North Korea and Iran, that we will no longer let them prepare the means for our destruction.

Please distribute this book to everyone you know and ask them to distribute it to everyone they know. Please volunteer on my website, [www.kotlikoff2016.com](http://www.kotlikoff2016.com), to help our campaign take the relatively simple steps to gain write-in ballot access in every state that chooses to obey federal law concerning write-in candidates. Please find nine other people who will pledge with you to jointly write in both me and Ed. And please donate what you can.

But what I need most as you help me and Ed in this campaign is your spirit, your strength of purpose, your focus on the issues, your determination to fix our country, and, above, your love for your children.